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USAID KOSOVO PRIVATE ENTERPRISE PROGRAM (KPEP)

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USAID KOSOVO PRIVATE ENTERPRISE PROGRAM

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Executive Summary

KPEP has continued, during Quarter 2, to provide focused and strategic support to identified sectors with an emphasis on activities that catalyze business expansion. Of note during this quarter has been a revision of the process of environmental approvals for KPEP SAF grants. Midway through the quarter, it was indicated that KPEP needed to refine the procedures for processing environmental authorizations. Initially this involved some work in revising the project IEE and recently, the documentation of environmental due diligence. This process has resulted in a better structured environmental approval process but unfortunately resulted in a delay of some 60 days.

This quarter has been crucial in initiating support to seasonally defined sectors, especially the **Fruit and Vegetable Sector**. Grant support was initiated during Quarter 1 and almost all cost-share support to this sector has been completed during Quarter 2. Additionally, appropriate study tours and business-to-business meetings have been concluded during this quarter, reinforcing the utility of new pack house aggregation points as well as increasing pre-planting off-take agreements between producers, processors and aggregators. This is essential since the presence of enhanced storage, marketing, and processing capacities must be evident to growers prior to the planting season in order to favorably influence their planting decisions. Of note over this quarter has been the enhancement of the processing capacity for fruit and vegetables, with four firms improving their offerings and aggressively seeking producer linkages to ensure product delivery. This combination of high visibility, well-timed technical and grant support has contributed to increased enthusiasm in the vegetable sector which should be reflected in at least a doubling of commercial off-take during the 2011 harvest season. This increased awareness of production potential is reflected in the decision by the Elkos group to establish a large pack house facility in Xerxe during 2011. Collaboration with other donors in this sector has been a key strategy during this period. KPEP has worked closely with Intercoop in jointly supporting the Berlin Fruit Logistica Fair, engaged the World Bank Community Development Fund to jointly support greenhouse expansion, and worked closely with the USAID KBEEP project in resolving some specific sector trade issues.

The **Livestock Sector** is largely focused on the Dairy sub-sector. Support to the Dairy industry has continued to build on the achievements in increasing marketability of product, driving import

substitution, and improving the position of Kosovo Dairy products in the market. The consumption of dairy product continues to grow and although all major firms are seeing increased local market sales, imports have not slowed. KPEP has continued with its strategy of improving product quality into the dairies. This will enhance efficiencies of production, drive final product quality improvement, and ultimately increase demand for Kosovo dairy product in the local market – which remains the immediate objective of the industry. Training in process improvement, increased HACCP standard certification, the development of new product lines – especially fruit yogurts – has been carried out this quarter, better preparing the processors for the increased seasonal supply that will come during Quarter 3. The ongoing collaboration with the Kosovo Veterinary and Food Agency; Ministry of Agriculture, Forestry, and Regional Development (MAFRD); and Producers and Processors Associations in implementing a national quality standard pricing system has seen increased milk quality tests and improved processor – producer communication. This will improve the producer incentive to invest in producing higher quality milk. Critical to the dairy sector has been the award of EU grants to a number of important dairy processors. These grants will enable the firms to greatly improve their internal quality processes and for some, enable final infrastructure development to achieve HACCP certification. KPEP was instrumental in these grants by working with the applicants during the process of application.

In addition to the dairy sector, the largest firm in the poultry sector received an EU grant. Konisoni will now be able to increase its processing capacity fourfold to 8,000 birds per day. KPEP has worked with this firm to define its strategy, and effective marketing has improved demand for local poultry products. The firm's product is now available in most large outlets and demand is currently outstripping supply. Of note, increased market demand and the new capital grant will require that the company seek production outside its own plant, and it intends to enter into out-grower contracts to fill the growing demand.

Like the dairy sector, the **Non Wood Forest Product Sector** has emphasized quality, through increased emphasis on HACCP and Bio standards for products and processes. Since all products in this sector are exported, these are critical market issues. This improved awareness of standards has increased the confidence with which the sector firms are engaging with the market. New packaging is being developed, new products are being emphasized and some, notably dried herbs, are entering the cultivated production system with one of our larger clients – APS in the west of the country. As with our other seasonal sectors, emphasis during this quarter has been on market linkage and product development through trade fair participation. Firms are attending these

fairs with minimal project support and results have been encouraging with new contracts being signed with German and Austrian firms. Inbound commercial trade visits will take place for the first time this year as a result of solid sector performance and Quarter 3 will see some of the largest European buyers visiting the country to enhance product development and reinforce marketing relationships which will be realized in sales during Q3 and Q4.

The **Forestry Sector** has continued to prepare the forestry industry - public and private - for the anticipated Forest Stewardship Council (FSC) certification of the Kosovo industry standard developed in the last work plan year. Staff changes at the European headquarters of the FSC have delayed the process, but during Quarter 2, we were advised that the review of the Kosovo documentation is back on track. In preparation for the certification, KPEP has continued to train public forest managers in the implementation of this standard such that upon final authorization by the FSC, at least two and hopefully three public forest units will quickly be certified, putting Kosovo on track to international forest management standards. As part of this, Chain of Custody (CoC) processes have been developed and training in their application will be an essential part of certification of Kosovo forest products when the EU mandates full CoC from certified forests for all its imports in 2012.

The allied **Wood Processing Sector** has been actively engaged during Q3 in promoting improved quality of production, enabling better competition with imported furniture. This has been done by specific technical and firm management trainings to targeted firms, support to the Association of Wood Processors (AWPK) as well as effective participation in regional and appropriate European trade fairs. Despite a setback with export quality to a Danish buyer, one of our clients, Elnor has managed to make a good impression in the Irish market. KPEP cost shared the transport cost for a part load to an Irish buyer, and this successfully catalyzed a return order for a full container sized order late in Q2. Allied to this and the forestry sector is the biomass production industry. KPEP has continued to focus on this as an important new business but also as a viable means of introducing a product that has the potential to reduce illegal logging. Three Firms have been able to expand their biomass output as a result of KPEP engagement and support during Q2 and it is hoped that this will catalyze larger investments in support of the forest and timber sectors.

The **Road Construction Sector** has focused during Q2 on concluding the training for road engineers and the closure of the arrangements for the effective development of a sustainable heavy equipment operator training course. During the month of March 2011, 33 participants, from

public and private sectors attended a certified course for road engineers conducted at the University of Pristina. The course was conducted by trainers from the Texas Transportation Institute (TTI). Although the course required full time attendance in order to graduate with the internationally recognized certificate, more than 130 applications were received from qualified engineers for this course. This has generated enthusiasm for the follow up course and opened opportunities for creative ways to make this self-sustainable. TTI have offered their trainers for future courses at logistics cost only – a critical cost saving for future courses. Additionally, the construction sector has finalized the arrangements for the establishment of the Heavy Equipment Operators Training Course (HEOTC) to be carried out at the premises of the KEK training center. Final contracting was in process at the end of Q2 and mobilization of the trainers for the first round of training of trainers is scheduled for April 2011.

The allied **Construction Materials Sector** has focused on subsectors with the greatest potential for increasing employment through business expansion in the import substitution sector. During this quarter, the sector lead has worked closely with the brick and tile sector as well as the light manufacturing sector to determine opportunities to provide technical and grant support. Additionally, the focus has been on the licensing of Architects and Engineers and significant progress has been made in defining the specific administrative instruction that will allow implementation of an appropriate licensing mechanism. This has received broad based support from the relevant associations as well as support from the new Minister for Environment and Spatial Planning. It is likely that a signature will be obtained on this instruction early in Q3. The procedural impasse with regards to USAID-required environmental documentation that has existed over the last quarter has had a significant impact on the construction materials sector since all grant applications to the SAF for this sector have come from firms requiring pollution prevention agreements. Since it was only late in Q2 that this requirement was resolved, this has delayed implementation of KPEP support. The firms are, however, moving forward with their programs in anticipation of support.

The **Information Communication Technology (ICT) Sector** has emphasized, during Quarter 2, the finalization of the establishment of the Kosovo Internet Exchange Point (IXP). Collaboration with CISCO systems and Packet Clearing House (PCH) has resulted in a donation of the necessary switching components to the IXP and these components arrived in country late in Quarter 2. The PCH technical expert will be in country early in Q3 to conclude the installation. All service providers had brought their cables to site by the end of the quarter and the newly employed

IXP manager was effectively providing oversight to the project. Of strategic importance and crucial to KPEP overall targets is the work being carried out in stimulating the BPO sector. As a result of effective market development and meeting with top officials in the Indian BPO sector, one large Indian BPO company has expressed strong interest in looking to Kosovo to provide his company with the platform in Kosovo to develop a strategic German market product that will compliment his present profile in the industry. In addition to encouraging FDI in this sector, KPEP has been actively looking to provide incubator support to firms interested in entering this promising segment of the market. At least three firms have expressed solid interest in engaging and one firm has applied for SAF support in incubating a German-facing product offering with the potential for rapid growth. KPEP has continued to support the industry association in promoting enhanced industry action over this quarter.

The **Tourism Sector** has focused on the development of the Kosovo aggregated tourism offerings and promoted these at regional tourism fairs over Q2. This includes the Dukajini region consolidated offering as well as significant work on the wine tourism offering in Rahovec. Since Kosovo has currently a mainly summer tourism offering, much of the work has taken place during the winter period in order to secure increased inbound business during the summer period. The wine tourism focal point in Rahovec has been developed, with full private sector support. All major wineries contributed financially to the establishment of the Tourism Information Center (TIC) in Rahovec and this will be formally opened early in Q3. This development is a partnership between the Rahovec Municipality, private wineries, Hotel Plaza and KPEP. A highlight of this activity was the visit by the Rahovec partners to Northern Italy to see what well-established wine tourism looks like. In order to prepare the regional market for the 2011 inbound tourism season, KPEP has been active in bringing participants to appropriate regional trade fairs, including opportunities developed by USAID RCI which have been particularly helpful in establishing the Kosovo offering. We have continued to work with the two major tourism associations in this sector. Additionally, collaboration with USAID KBEEP is in the process of producing a tourism information and survey strategy that will aid policy development and assist in tracking inbound tourism industry developments.

Recycling has continued to receive support from the Tourism sector lead with successful interventions concluded in Q2 in the plastics recycling. As a result of targeted SAF support, plastic recycling collection points have increased in number, the number of collectors engaged has increased by over 100% and the amount of plastic collected has almost doubled over the quarter. Additionally, a client engaged in waste paper recycling has installed a new facility with technical

support from KPEP which has the potential to more than double paper throughput and reduce dependency on imported waste paper for the manufacture of tissue products. There is increased interest in developing the recycling sector from the trade as a result of the visible results of KEP intervention during this work plan year.

The **North Kosovo and Cash for Work Program** has been a significant development in Q2. The cash for work program began late in Q1 with the Ibar river cleanup campaign, supporting 177 daily wage workers. This was followed by Phase II which began during the quarter. Additionally, KPEP liaison officers working in the 4 municipalities of the north generated over 60 applications for SAF grant support in stimulating business growth across most of the KPEP sectors. The USAID-required environmental process issue has delayed implementation but three grants were approaching finalization nonetheless during the latter part of Q2. Pressure to perform has been intense in this politically charged environment but our reputation remains solid and it is likely that rapid grant performance in Q3 will improve the situation.

The **Business Support Services (BSS)** component (Task Order Component Two), in addition to providing specific cross-sectoral support, has focused on working with associations. These include producer associations, where in conjunction with BEE, significant progress has been made in converting these to cooperatives with the direct benefit that they are able to trade directly. Additionally, three associations have seen strategic plans concluded during this quarter with full member support and adoption.

The **Business Enabling Environment (BEE)** component (Task Order Component Three) continues to support all sectors in improving the business environment as appropriate to the sector's requirements. This has mainly focused on the need to improve trade regulation and facilitation as well as licensing and certification procedures. BEE has taken the lead in bringing together all relevant actors in support of this. This includes ongoing cross-sectoral work with USAID KBEEP and SEAD. BEE has been instrumental in increasing the collaboration between stakeholders in the expanding Economic Diplomacy Task Force. Additionally the component has been effectively utilized in support of the move to re-orientate producer associations into cooperatives in order that they can have an active trading function.

The **Work Force Development** component (Task Order Component Four) continues to provide crucial skills to the workforce through curriculum development support for higher and vocational

level education as appropriate, as well as increasing the pace of our excellent internship offering. The internship program activity has shown real promise and this is reflected in the attention being paid to this by multiple donors. KPEP has organized a series of well attended meetings with public and private actors, including USAID YEP, interested in the development of the labor market. It is likely that the success of the internship program will result in substantial increase in support across sectors during Q3. Additionally the component continues to roll out the entrepreneurship training program across 20 municipalities with excellent participation and some very high quality business ideas being presented by participants.

Key to the support that KPEP advances is the provision of **strategic activity fund (SAF) grants**. During the quarter under review, five review committee meetings were held, a total of 51 concept papers were reviewed. 20% were rejected, and the balance were either approved, further information requested or postponed (all North Kosovo grants have been postponed pending clarification of funding).

KPEP technical area	USAID partners	Donor partners	GoK partners	Local partners
DAIRY				
raw milk sampling		Swiss Labor Assistance	MAFRD KFVA	KDPA KAMP
dairy technologist trainings	World Learning Land o Lakes	EU		KDPA
dairy policy	KBEEP		MAFRD MTI	
broilers		EU UNDP		
FRUIT AND VEGETABLES				
greenhouses		MASHAV, World Bank Community Development Fund	MEF, MAFRD	farmer's associations
Trade Fairs and Trade Policy	KBEEP	Intercooperation		Raiffeisen Bank
NON WOOD FOREST PRODUCTS NWFP: organic, wild harvest			Municipality of Strpce	
		GIZ HPK	MAFRD IPAK University of Pristina Customs Agency KFA	
FORESTRY				
forest certification		SIDA SNV FAO EU Finnish Embassy Norwegian Embassy	KFA MAFRD	AWPK
WOOD PROCESSING				
reaching new markets		CWPA GIZ	IPAK	AWPK
new curriculum biomass		World Bank	Faculty of Applied Sciences	
ROAD CONSTRUCTION				
pilot road			MTT	
road design curriculum			Faculty of Civil Engineering	
HEO training Center			KEK	

KPEP technical area	USAID partners	Donor partners	GoK partners	Local partners
internships				RCAK
CONSTRUCTION MATERIALS				
licensing of architects contracts	SEAD, BEEP		MESP	
ICT				
Business Process Outsourcing		World Bank CDF Norwegian Embassy, Cisco	IPAK	STIKK
IXP			TRA	
Other	K-WISER			
TOURISM				
wine tourism	FORECAST	GIZ	Municipality of Rahovec	Private sector in Rahovec
Destination development			RTB**	
promotion of the sector	MFASP		MTI; IPAK	KOTAS; KATA
regional cooperation	RCI			KOTAS; KATA
recycling	BEP			
BSS		TAM-BAS		
BEE	KBEEP MFASP	MAFRD	IPAK	Am Cham
WFD	YEP Mercy Corps	Swiss Contact UNDP Norges Vel DANIDA BCYF LUX Development EU SME CDF	MTI MEST MLSW	KCC
NORTH KOSOVO	IPC/AED, Crimson Capital, IRD/SIWS, CHF/KASS, DEMI, World Learning, ABA ROLI	Spark	MPT	WBA, Mundesia, Raiffeisen, ProCredit, Men's Association

Component 1: Increased Competitiveness of Key Sectors

Agriculture: Livestock

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$114,000	40	152
Committed this quarter	\$ 20,000	0	5
Total committed to date	\$158,000	0	5
Remaining to be programmed*	\$ 44,000	0	40

Livestock Industry Dairy

Objective 1: Sustainable improvement in milk quality (Ongoing)

Benchmarks

- KPEP anticipates this activity will result in an increase in the number of raw milk samples analyzed at KVFA's raw milk laboratory with field personnel collecting at least 1,000 samples per month.

On February 1, project officers started collecting raw milk samples from commercial dairy farms submitting raw milk samples to the KVFA raw milk laboratory for analysis. We have developed (1) a list of dairy farmers who are supplying dairy plants with raw milk and (2) a database to track improvements in raw milk quality. Over the past two months, 2,000 raw milk samples were delivered to the KVFA raw milk lab for analysis. Ministry of Agriculture Forestry and Rural

* The Livestock Sector has programmed, as of Q2-end, more than anticipated due to promising opportunities. In addition, Livestock intends to spend \$44,000 in Q3-4.

Development (MAFRD) is responsible for quality standards and the payment mode specified in Administrative Instruction (AI) 20/2006. Field officers working with the transparent raw milk sampling project are currently reporting information about dairies that do not comply with AI 20/2006. MARFD chief of livestock breeding Arsim Memaj expressed his full support for the project and is prepared to meet MAFRD obligations for successful enforcement of the AI. The AI offers a financial incentive to farmers to improve raw milk quality.

- **Bar code system on milk samples introduced and adopted by both processors and producers**

This quarter, KPEP coordinated activities between KVFA and the animal registration and movement control system, an EU funded project to develop a software model that implements a more efficient raw milk testing process. Currently, the milk laboratory uses a manual system to communicate raw milk test results to farmers. The director of the KVFA raw milk lab expressed his commitment to install a bar code machine that identifies raw milk samples by the end of the next quarter.

- **At least 40% of farmers sampled see an improvement of at least one quality grade**

The KFVA raw milk laboratory reported test results that showed an improvement in milk quality. The laboratory compared 2010 data with current year data. With respect to somatic cells counts (SCC), approximately 20% of raw milk samples moved up a class, while bacteria count showed no significant improvements.

- **The additional income of these farmers is at least 140€ per year per animal milked**

The high SCC number shows the occurrence of mastitis among dairy cows, one of the main factors that affect both the yield and the quality of raw milk produced by Kosovo farms. Milk yields have improved - on average from 10% to 15% - as a result of lowered somatic cell counts. We will collect records on the income of farmers per animal milked upon the completion of the transparent raw milk sampling project.

Additional Achievements

- All stakeholders of the transparent raw milk sampling project agreed to introduce a standard raw milk supply contract using standards derived from AI 20/2006. Doing this would reduce the risk of milk producers (1) unexpectedly losing their market or (2) changing the raw milk price.

Challenges

- One challenge that prevented the sequence of work for the transparent raw milk sampling project was lack of qualified staff to implement the project. Two coordinators resigned, and a new project coordinator has just been recruited.

Activities Planned for the Next Quarter

- Develop the SMS data transfer system to alert processors and suppliers.

Livestock Industry: Dairy**Objective 2: Improve quality and variety of dairy products (New)**

Benchmarks

- **Four dairy technologists and one private dairy consultant trained**

Five dairy technologists from five different dairy plants attended the dairy technology training program at Minnesota dairies and at the University of Wisconsin March 20 - April 2. The aim of the training program was for local dairy technologists to acquire the needed knowledge to upgrade their skills for producing cheeses and fruit yogurts. This will help them to substitute imported dairy products and increase the sales of the dairy companies with whom they are engaged. The training program was well designed and well implemented. The program offered the group an ideal opportunity to work with University of Wisconsin cheese technologists and students on the cheese making process. Participants learned how to make Gouda and Colby cheese with seasonings, including wine and apple flavors. This will enable participants to diversify their product lines. In addition to cheese making at the University of Wisconsin, the group also learned how to make fruit

yogurts for the first time. The group worked with students to make fruit yogurts and flavored cheeses. The training program fulfilled the group's expectations.



Kosovo dairy experts in US

- **A measurable increase in product shelf life of products from target firms**

The visit at Bongards Creameries (training for dairy technologists in the U.S.) offered Kosovo participants the opportunity to witness special hygienic control measures prior to entering the dairy plant. The hygiene conditions at the dairy are undertaken in accordance with Good Hygiene Practices (GHP). Application of GHP measures will extend the shelf life of final dairy products.



Kosovo dairy experts in US

- **A measurable improvement in milk conversion ratios in target firms**

KPEP has started trainings for improvement of production efficiency and milk quality control – two main factors that influence milk cheese conversion ratio.

The KPEP contracted STTA Dragi Mihajlov, started the training at three dairies, the measurable results will be reported after the trainings are finished.

- **At least two new dairy plants HACCP certified**

During this quarter, regional STTA Dragi Mihailov visited three pre-identified dairies - Kabi, Magic Ice and Rugove dairy plants - to start working towards a HACCP implementation process. The dairies received guidance on the physical changes that must be applied to their buildings in order to prevent cross-contamination on the premises. As a first step to introducing the HACCP system, dairy plant managers (1) established an HACCP team consisting of five workers and (2) identified an HACCP team coordinator who will lead the HACCP implementation process.

- **At least two new dairy products introduced to the market by target firms**

Seasoned Gouda cheese will be introduced to the market in the next quarter, as a result of the dairy technology training program.

Challenges

- The introduction of fruit yogurt is dependent upon planned purchase of new equipment with an EC rural grant scheme. The introduction of fruit yogurt at Euroлона dairy is dependent upon a KPEP grant disbursement.

Activities Planned for the Next Quarter

- Prepare HACCP implementation plans for two dairy processing companies.

Livestock Industry: Dairy

Objective 3: Improve product marketing and business relationships (Ongoing)

Benchmarks

- **Dairy Imports will decline by at least €2 million during the 12-month period starting October 1, 2010 and ending September 30, 2011, reflecting an increase in market share by domestic producers**

There is an increase in sales by €8.3 million above the baseline for KPEP clients. However at the same time customs data indicate that in 2010, compared with 2009, imports of dairy products have increased by 6.2%. This demonstrates that the demand for dairy products in Kosovo is increasing. If Kosovo companies wish to substitute imported dairy products and gain more local market share, the companies must diversify their product lines to meet consumer demand, particularly for enriched dairy products.

- **Increase of €1.5 million in farm gate value of sales of dairy products**

The dairy promotion campaign will take place in the next quarter.

- **At least 20,000 school children benefit from the school milk promotion drive during 2011**

The strategy for the dairy promotion campaign scheduled to take place next quarter will be revised. In cooperation with KDPA, KPEP will look at the possibility of promoting dairy products using billboards placed in high traffic areas throughout Kosovo. The goal is to attract the public's attention and to create a quick memorable impression, spurring the reader to consider the advertisement after they have driven by it.

Activities Planned for the Next Quarter

- Meet with dairy companies to define ways to organize the dairy promotional campaign.
- Draft SOW for dairy promotion campaign as well as enhancing our ability to determine results in addition to customs data.

Livestock Industry: Dairy**Objective 4: More effective dairy policy (Ongoing)**

Benchmarks

- **At least one trade policy impacting the dairy sector adopted by the Government of Kosovo**

Despite the fact the KPEP and KBEEP are working closely with governmental institutions to address the unfair trade practices reported by KPEP clients, progress has been very slow and none of the reported unfair trade practices have been resolved. This indicates a lack of willingness by governmental institutions to cooperate.

Additional Achievements

- No additional achievements to report.

Challenges

- We continue to face similar challenges to the previous quarter.

Activities Planned for the Next Quarter

- Work with KPEP clients to prepare an economic brief that describes the trade problem, estimates the impact of the problem, including lost business, reduced production, lost employment, profit and tax revenue; submit findings to the Trade Policy Working Group, which can subsequently recommend possible remedies. (Pestova and Konisoni have reported a loss in business and profits as a result of unfair trade practices imposed by neighboring countries.)
- Work with governmental institutions and the Trade Policy Working Group to address unfair trade practices imposed by neighboring countries.

Livestock Industry: Poultry

Objective 1: Expand poultry sector in Kosovo (New)

Benchmarks

- **Konsoni broiler sales will increase by at least 50%, from 1500 to 2250 birds per day**

The Konsoni broiler slaughterhouse has increased its processing capacity from 1500 to 2200 birds a day as a result of the KPEP produced marketing strategy. The demand for fresh broilers is growing at a steady pace. To meet the growing demand by the EC, the rural grant scheme will install a new broiler processing line with a capacity of 8,000 birds a day. At this point, Konisoni is operating at full growing capacity. To increase the scale of production, Konisoni is planning to enter into broiler growing contracts with poultry farmers.



Konsoni boiler

- **At least three lead farmers begin turkey production with identified end markets for first year product**

No activity this quarter. Q2 will determine targets of opportunity

Due to the lack of the slaughtering capacities, this activity should be postponed for next year.

Additional Achievements

- Supported Aves Prom, the sole broiler producer and processor in North Kosovo, with a grant to purchase equipment for dispensing pelletized and granulated feed and water. This will improve significantly the output of birds in Northern Kosovo.
- During discussions with Israeli investors targeting the greenhouse sector, interest was shown in investment in the broiler industry. It is possible that the firm will consider equity investment with Konsoni in Q2. KPEP will continue to support this exciting development.

Challenges

- The Konsoni grant disbursement is pending due to completion of documentation from the beneficiary.
- The Aves Prom grant is pending the final Environmental review approval by the Ministry of Environment.

Activities Planned for the Next Quarter

- Disburse the grant and setting up the mobile broiler grilling unit.
- Finalize the purchase for dispensing pelletized and granulated feed and water.

Agriculture: Fruit and Vegetable

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$200,000	24	100
Committed this quarter	\$299,940	0	14
Total committed to date	\$299,940	0	14
Remaining to be programmed	0	10	86

Agriculture: Fruit and Vegetable**Objective 1: Improve fruit and vegetable production****Benchmarks**

- **At least ten farmers will begin new hybrid variety cultivation previously demonstrated through pepper test trials in Year 2**

The Perdrini Association has identified ten farmers who have agreed to cultivate eight hectares of the new hybrid grafted seedling watermelon variety, two hectares of melon, and two hectares of the new pepper variety.

- **At least five hectares of hybrid peppers produced with a commercial off take of 200 MT**

Nothing to report this quarter.

We anticipate initial results following seed germination and open field plantation in Q3.

- **At least one new greenhouse seedling producer will enter the market for field vegetables**

Las Palmas Company has tripled their production of seedlings. The target for new producer not achieved yet.

- **At least 50 new hectares of plastic mulch will be applied, extending the length of the season for tomato, pepper and watermelon production**

We have surpassed this benchmark: there are 80 ha prepared to be cultivated with this system. The Perdrini association will implement 30 ha of mulch. We have supported 10 ha of the total surface. Fifty ha will be planted with this system by Kastrati family from Radosta village. KPEP has supported Kastrati family during last season to export watermelon.

- **At least five input suppliers will begin providing extension services to grower clients, supported by local consultants as well as interns**

Nothing to report

- **At least one seedling producer will begin automated seedling grafting and supply these to the market**

Nothing to report this quarter.

- **At least one mushroom cultivation farm will begin operation**

The initial phase of a joint investment between Kosovo and a Dutch company for mushroom cultivation has just been finalized. A former mushroom facility in Jashanica, Klina has secured a €800,000 investment for mushroom cultivation. KPEP is in close contact with the Dutch company regarding preparations for a compost production facility in Klina, set to begin in May 2011.

- **At least one company will enter commercial sterilized compost production for mushroom production**

We have already identified an initial group of firms. It is likely that in Q3, we will see the results of more than €1 million in investment to support new mushroom production.

- **At least 80 new semi-skilled jobs will be created in the mushroom sector**

We anticipate that 60 workers in the mushroom sector will be employed beginning in June 2011. Results are pending an investment.

Additional Achievements

- We continued facilitation of meetings between Elkos and KPEP clients specific to preparing plantation plans for vegetable cultivation. These plans will be delivered to the Elkos owned Kosovo Central Pack House in Xerxe, which will be operational by July 2011. Elkos and the Perdrini Association have already confirmed a delivery of 4800 MT of vegetables.
- KPEP has awarded the Zubin Potok based green house Antonija €19,408 grant to increase vegetable production by installing central heating and a cooling chamber for storing products.



A final presentation on the Israeli greenhouse package project; Jazi 2, Rogova, Gjakova with CDF (Community Development Fund) as a donor with a 20% green house cost for each farmer. The event attracted 160 participants.

Activities Planned for the Next Quarter

- Kosovo agribusiness stakeholders and farmers to visit Israel.
- We will continue to work on developing at least 15 HA of greenhouses. This activity will take place in Q3 and will involve the Ministry of Agriculture, Forestry and Rural Development

(MAFRD) and the Community Development Fund (CDF), which have agreed to support this project with a 50% cost share.

- Work with Las Pallmas to expand another 800 m2 of nursery green house via a KPEP grant for seedling cultivation.
-

Agriculture: Fruit and Vegetable

Objective 2: Make collection centers fully operational (New)

Benchmarks

- **Four KPEP supported pack houses will be fully operational in Year 3**

All KPEP grants to pack houses have received follow up visits and it has been determined that they will be operational in good time for the season.

- **Extend award to a company to commence construction and installation of cold chambers for four vegetable collection cold chamber stations in Krusha e Madhe, Rogova village, Budisalc and Podujeva**

These awards are being finalized.

- **At least 20 pack house employees trained in quality control and handling**

To be achieved in the next quarter.



At least ten pack house representatives and growers attend the Plovdiv Fair agricultural technology trade show in Bulgaria

The study tours to Adana, Antalya and Mersin, Turkey and the Berlin Fruit Logistics Fair were very productive. Because these study tours were so successful, we decided to cancel our planned Plovdiv Fair.

- **At least one commercial apple storage facility established to serve the needs of at least 20 ha of production**

The Elkos Group purchased three acres in Xerxe, Rahovec to establish the Kosovo Central Pack House. KPEP is negotiating an apple storage facility inside this facility.

Activities Planned for the Next Quarter

- Continue negotiations with the Intercoop Group in Peja/ Peč to establish an apple storage facility inside their spacious new depot. We are continuing ongoing negotiations with the Elkos Kosovo Central Vegetable Pack House (scheduled to be fully operational for 2011), for the establishment of a central apple central storage facility in their pack house in Xerxe/Zerze, Rahovec/Orahovac.
- Organize sales visits to Macedonia, Albania, Montenegro and Germany.
- Visit the Agribusiness Fair in Albania.

Agriculture: Fruit and Vegetable**Objective 3: Improve and expand vegetable processing capacity and technology (Ongoing)**

Benchmarks

- **Increase in vegetable processing capacity under HACCP certified conditions will lead to increased export sales of at least 500 MT of processed produce**

Nothing to report this quarter. Results will accrue in Q3 and Q4.

- **At least one new processor achieves HACCP certification**

KPEP finalized pre-HACCP layout advice for nine companies: Fitimi, Grate Farmere, Vokrri, and Rizona. In Q1 we extended this advice to five companies: Widow Association, Bashkimi, Liria, Fruti, and Hosa Fresh.

- The Edona/Hosa Fresh vegetable processing line will manufacture goods valued at €45,000 and will offer full time employment to 60 individuals. The line will be completed at the end of April and will be operational by the end of May 2011. KPEP supported Edona/Hosa Fresh to establish a vegetable collection center with a grant of €35,000. The cooling chamber is ready for production.

Additional Achievements**Challenges****Activities Planned for the Next Quarter**

- Work with Hosa Fresh and the farmers' association to secure delivery supply of vegetables for processing.
- Facilitation of Edona's 200 MT watermelon export to Switzerland.
- Work with vegetable processing companies to implement granted machinery and equipment.

Agriculture: Fruit and Vegetable**Objective 4: Expand existing markets and penetrate new markets (Ongoing)**

Benchmarks**Kosovo vegetable producers will:**

- **Export to at least one new market**
- **Export at least one new crop for the existing export market**
- **Provide the domestic market with at least two new products**
- **Export at least 300 MT of the Cecei pepper variety (tested in a 2010 test trial in Kosovo) to Switzerland**
- **Promote Cila and Abide pepper variety for export to EU countries**
- **Achieve at least 4000 MT in export vegetable sales**
- **Achieve at least €1.2 million in export sales of vegetables**

Since all of the benchmarks under Objective 4 are export orientated, performance will only be realized during quarters 3 and 4.

Additional Achievements

- KPEP visited the Berlin Fruit Logistic Fair with 12 clients in partnership with the Intercooperation HPK project. We established linkages with several companies, including grading machinery suppliers.
- A KPEP representative met with the Shalamultimarche fruit and vegetable trading company in Geneva. The company has requested 200MT of watermelon for export to Switzerland for the 2011 season.
- We successfully organized the Fruit and Vegetable B2B conference at a KPEP venue. The event attracted 34 client company representatives and resulted in a 6500MT of vegetable delivery between traders, processors and the farmers' association.

Activities Planned for the Next Quarter

- Work on the Fancy Food Fair set to take place in Washington DC. Undertake preparations for 2-3 client companies to visit the fair and offer samples.
 - Work on the facilitation of vegetable exports with V-Kelmendi and Ask Foods.
-

Agriculture: Fruit and Vegetable

Objective 5: Improve business practices of farmer associations (BSS new activity)

Benchmarks

- **At least five fruit and vegetable associations will have improved organizational structures in accordance with the Cooperative Law**

The Perdrini Association organized a meeting with farmers to elect new board members and other additional members. Members agreed to turn the association into the Perdrini cooperative, which KPEP will support and advise. Moreover, the Widow Association of Krusha e Madhe successfully registered itself as a cooperative.

- **Integrate vegetable associations into the ADI survey and analyze their effectiveness**

Work is in progress; nothing to report this quarter.

Agriculture: Non Wood Forest Products

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$170,000	24	90
Committed this quarter	\$100,588	0	45
Total committed to date	\$100,588	0	45
Remaining to be programmed	\$69,412	0	45

Non Wood Forest Products

Objective 1: Increase capacities by improved collection, processing and marketing (Ongoing)

Benchmarks

- **At least three new firms will acquire HACCP certification**

This quarter, we selected MD and Sigma, two local companies, to implement the HACCP food quality standard. We visited five companies that could potentially receive the certification. We reviewed their overall situation, equipment, facilities and time frame prior to embarking on the HACCP certification process.

HACCP certified companies MD and Sigma are implementing the process of HACCP certification for five firms that are eligible to enter into this process. They include APS, Besiana, Cooperativa Rogova, Scardus, and Agro-Peti. KPEP initially supported these firms with individual €5,000 grants for HACCP certification. KPEP offered the possibility of additional funding (where

necessary) for required improvements specific to infrastructure, equipment or other interventions, as foreseen by HACCP standards.

The possibility of additional funding is based on preliminary reports by implementing companies (MD and Sigma) about a particular firm's additional needs for putting in place the HACCP criteria. Agro-Peti and Scardus have invested their own funds toward infrastructure. APS has undertaken necessary changes for expansion and reconstruction. KPEP assisted Besiana with an additional €5,300 for these interventions. Kooperativa Rogova has not yet presented its plans and needs. We have set April 15, 2011 as the deadline for firms to express interest for beginning of the HACCP certification.

- **At least three new firms will acquire organic certification Bio Inspecta Switzerland**

Nothing new to report this quarter.

Two KPEP clients, APS and HitFlores, have extended their organic certification for another year. This step was taken as a result of the benefits of organic certification with respect to targeting high value European markets. While exhibiting at the BioFach Fair 2011 in Germany, the two companies managed to establish contracts with several foreign companies.

- **At least 500 new collectors will receive training on good collection practices**

Nothing new to report this quarter.

- **Sales of NWFP will increase by at least 40% over 2010 levels**

We witnessed a 15% increase in sales in comparison with last quarter as a result of enhanced export market requirements. EuroFruti and AgroProduct Syne signed sales contracts with Austrian and Swiss buyers valued at approximately €300,000.

Though we were unable to reach our benchmarked 40% increase in sales this quarter, we made an effort to secure new market opportunities. These efforts resulted in five foreign companies visiting Kosovo, contracting current varieties and six new varieties of cultivated herbs from APS and Hit Flores.

- **At least three new retail brands enter the market**

Nothing to report this quarter.

- Austria's Sonnentor and Germany's BioNorica are interested in developing a supply source by adding value to local products of both cultivated herbs and collected berries. They will do this by offering their brands in small and medium size packaging.

Additional Achievements

- Nothing to report this quarter.

Challenges

- Though HACCP certification is clearly beneficial for companies, the majority of them still lack the building infrastructure, sanitary processes and basic equipment required for this certification.

Activities Planned for the Next Quarter

- Ensure that five companies implement HACCP and sell their products using the certification before the upcoming season for NWFP and herbs (May - October, 2011).
- Raise awareness and further support companies to obtain bio-organic certification for cultivation fields or hilly areas.
- Organize a round table meeting with sector stakeholders, including MAFRD, the University of Pristina, the Forest Agency, IPAK, customs, and bank and MFI representatives. The meeting will aim to (1) address possible areas for collaboration and (2) develop synergies to rapidly expand the performance of the sector.

Non Wood Forest Products

Objective 2: Improve linkage to international markets (Ongoing)

Benchmarks

- **At least three new marketing plans adopted and implemented by lead firms**

This activity is still in progress. Networking activities are being carried out with three companies: APS, HitFlores and Fungu FF. We are drafting a marketing plan with APS that will be an integral part of the company's business plan. We will finalize the plan following international company visits and after determining cooperation opportunities.

- **NWFP firms participate in at least two trade fairs**

APS, HitFlores, Fungu FF, EuroFruti and representatives of three projects, including USAID/KPEP, Intercooperation and GIZ visited the BioFach Fair February 16-19, 2011 in Nuremberg, Germany. The companies actively participated in the fair. HitFlores realized 300 tons in sales, established new contracts, and expanded current contracts with international European companies, including Sonnentor and BioNorica. These companies plan to visit Kosovo May to July 2011.

- **Kosovo exports NWFP to at least two new markets**

AgroProdukt – Syne (APS), one of Kosovo's most prominent NWFP companies, has signed an initial €50,000 contract with Germany's Velda to supply wild leaf and cultivated herbs. AgroProdukt –Syne (APS) anticipates that the size of the contract will increase in the future. The company has also signed a €10,000 contract with Austria's Sonnentor, for the supply of cultivated herbs. This contract is also expected to increase. The Kosovo Exports Association has bestowed APS with its Best Sector Export Company award as a result of these increased exports.

APS has extended contracts established during the previous quarter. The increased supply in quantity and the species number of herbs, as well as previously created linkages, will lead to new opportunities for market share when Sonnentor, Martin Bauer and Bionorica initiate their visits to Kosovo starting May 2011.

Additional Achievements

- Beyond the support that KPEP provides to APS, HitFlores, and Fungo FF specific to their marketing plans and increasing their cultivation and sales, KPEP has also assisted the Fungo FF Company to create a short commercial film aimed at promoting the company's products and expanding its client base.

Challenges

- The farmers' main challenges will be to (1) increase the cultivation capacity and adaptability of herbs and (2) to switch from cultivating vegetables to herbs (medicinal and culinary) by using organic methods of production (instead of chemical pesticides and fertilizer).

Activities Planned for the Next Quarter

- As a lead company for the export of cultivated herbs and berries in international markets, we will work closely with APS to (1) finalize its marketing plan, and (2) to build on the company's previous networking activities.
- Actively participate in the USETEC second hand machinery fair in Cologne, Germany April 6-8, 2011. An expert representing small and medium scale farmers in the NWFP and F&V will also attend the fair.

Non Wood Forest Products

Objective 3: Identify new product/market opportunities (Ongoing)

Benchmarks

- **At least 50 MT of wild harvest chestnuts exported**

KPEP contacted twelve different trading chestnut companies, six in Germany and six in Switzerland, to (1) inform them about organic chestnut resources in Kosovo and to (2) build possible business linkages. Agroprodukt Syne (APS) met with Sandro Vanini's Pascale Severac

Company, who expressed an interest in peeled chestnuts. As a result of this market development APS is actively seeking ways to process wild harvest chestnuts as peeled product for the next autumn harvest.

We continued to research western EU countries and on how to take advantage of opportunities among possible buyers for unpeeled chestnut commodity in bulk. Considering that the EU market demand is specific to peeled chestnut, we researched options for affordable peeling equipment.

APS and a buyer from the German Diaspora reached an agreement to export 50 MT of chestnuts. The load will be packed in nettings and exported at the end of the season.

- **At least one value added market opportunity and action plan completed and implemented as necessary**

Rugova Cooperative began packaging and labelling fresh and frozen wild blueberries, wild blackberries and cultivated strawberries. The company is introducing its products to the local market via supermarket chains.

KPEP is working to add value to commodities via innovative packing, as opposed to the previous method of selling in bulk. A good example is Fungo FF, which introduced new packaging for wild collected and dried mushrooms to domestic buyers. The same packaging model will also be introduced to the Italian export market.

Additional Achievements

- Nothing to report in this quarter.

Challenges

- The main challenge will be to (1) increase the sale of chestnuts by more than 50 MT and to (2) expand to larger markets. The EU market requires peeled-processed chestnuts rather than bulk chestnuts. Kosovo will have to overcome this challenge by identifying and procuring appropriate equipment to peel chestnuts.

Activities Planned for the Next Quarter

- Continue extensive research on the international market for chestnuts.

- Create further contacts and build more linkages between local and international chestnut companies.

Additional achievements for Raspberry Orchard (additional activity in NWFP sector)

The Štrpce/Shtpce based Farmers Association MVM applied for and received a €16,000 (40 farmers to be supplied with 0.10 Ha young plants each) grant. The valley region of Štrpce/Shtpce exhibits the ideal conditions to produce raspberries without the use of chemical products. Serbia has already been identified as the export market. This is the first step to increasing the cultivation capacity of this crop in the future. The soil preparation has been completed and the farmers have prepared their plants. The supply of young plants is still in progress and will likely be finalized in April.

Forestry: Forests

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$25,000	30	25
Committed this quarter	\$19,800	5	0
Total committed to date	\$19,800	5	0
Remaining to be programmed	\$ 5,200	25	25

Forestry: Forests**Objective 1: Forest certification through Forest Stewardship Council (Ongoing)****Benchmarks**

- **FSC will approve the Kosovo Standards for forest management**

The standards development group application for accreditation of the Forest Stewardship Council (FSC) standard for Kosovo is currently under review at the FSC International Centre Policy and Standard unit. KPEP recently received confirmation from FSC International's policy manager that the Standard Development Group (SDG) application is under review.

- **At least three targeted training events conducted at local/community levels for the implementation of the FSC approved standard**

KPEP conducted one out of three planned training events in Dragash/Drigas municipality with all relevant local governmental and non-governmental stakeholders interested in forestry. The training was an opportunity for key stakeholders to understand the development process of the FSC standard. The session also shed light on FSC requirements that must be applied in forest management operations, benefits of FSC certification and the challenges that Kosovo faces to achieve preconditions for forest management certification.

In March, KPEP conducted the second planned training to implement the FSC approved standard in Kačanik/Kacanik municipality. We updated participants on the FSC standard process for

Kosovo and the improvements that must be undertaken in planning, management of forests, environment, health and safety, procurement and record keeping.



Training in Kaçanik/Kaçanik on the FSC requirements

- **At least one training event for MAFRD staff on requirements for oversight of new Forest Standard**

During the second quarter, KPEP worked on preparations for the planned training, which is scheduled for the third quarter. We prepared a SOW for the STTA and a list of potential participants from MAFRD-KF. We provided municipal forest authorities with information about the objective of this training.

- **Kosovo-specific CoC guide developed and distributed**

We continued to work on developing the Chain of Custody (CoC) guide. Content material for FSC CoC certification has been translated into Albanian. We anticipate that the final version of the CoC guide and the corresponding training for AWPB members will be finalized in the third quarter.

- **At least two professionals trained in Kosovo CoC application**

KPEP approved a request to support two forest professionals to attend the auditing process in Croatia. We achieved this as a result of an agreement between Croatia's Forestry Authority and the auditing company that will conduct the audit process May 23 -27, 2011. The participation of Kosovo forest professionals in the auditing process is crucial to development of local capacities with respect to conducting internal audits according to FSC requirements.

- **Kacanik and Dragash/Dragas complete first forest standard audits**

There is nothing to report during this quarter, since the FSC standard has yet come into force.

- **School essay competition completed**

During this reporting period, KPEP approved a grant intended to raise awareness amongst schoolchildren and other stakeholders about the critical role forests play in everyday life. The activity aims to educate and provide training to stakeholders about the long-term benefits that arise from the sustainable use of forest resources. The private organization Owner Association Mali –Suhareka will implement the project, *Educating Forest Owners and Children to Care for Forests in the Tradition of their Elders*, during the third and fourth quarters.

Additional Achievements

- KPEP engaged the Natural Resources Solution Company to conduct an assessment of ten sample plots in oak, beech and spruce forests in five selected municipalities: Istog/Istok, Suhareke/Suva Reka, Dragash/Dragas, Kačanik/Kacanik and Novoberde/Novo Brdo. The results from the assessment were presented during three workshops in Istog, Suha Reka and Novoberde/Novo Brdo. The participants discussed the findings and offered feedback and recommendations on how to treat certain categories of forests in order to improve overall forest functions and fulfill community needs. Output from these workshops is incorporated into the draft administrative direction that will be submitted to MAFRD's Forestry Department for further processing and approval in order to regulate treatment of this category of forests.
- KPEP started a project for pre-commercial cleaning and thinning of young stands that will undergo silviculture treatment in Northern Kosovo. We anticipate the project will cover nearly 300 ha. Thus far, we have identified the forest area in question and have tested two

experimental plots. We have engaged professionals to evaluate the environmental impact of these operations. We expect to implement this activity during the third and fourth quarters.



Field visit testing plot in Novoberde/Novo Brdo for pre-commercial thinning

- KPEP continued to share achievements on the FSC standard development process and forest certification with forestry sector donors, including SIDA, SNV, FAO, the EU and the Finnish and Norwegian Embassy. We also explored opportunities for support to contribute to (1) the improvement of forest management through the implementation of current forest policies and the adoption of new ones and (2) FSC requirements in forest areas foreseen for FM certification. SNV has agreed to co support the activity of forest cleaning as part of the cash for work activity in Northern Kosovo.

Challenges

- Supporting relevant forestry institutions to improve implementation of the current legislation and change their planning and operational procedures according to the FSC requirements while respecting environmental, social and business interests of all interested groups was a challenge this quarter.

- Obtaining an answer from the FSC to Standard Development Group (SDG) for accreditation of the pre-approved FSC draft standard for Kosovo was a challenge. As a result of staff changes and a backlog of applications requests, the FSC Centre failed to provide an answer to SDG's request in time for the deadline to be met.

Activities Planned for the Next Quarter

- Continue to coordinate the work of the Kosovo Standard Development Group (SDG) in order to complete two years of work on the development and revision process of the FSC standard for Kosovo.
- Organize a training event for MAFRD staff on FSC requirements of accredited FSC standards for Kosovo.
- Adopt a short version of the FSC guide for AWPK members on FSC requirements for CoC certification.
- Continue support the Kosovo Forest Agency and Municipal forest authorities to meet the FSC requirement on management units selected for FSC forest certification.
- Offer technical support to forest authorities in Leposaviq and Zubin Potok to prepare an operation plan for cleaning activities on young stands that require sylviculture treatment of approximately 300 ha as part of the proposed cash for work program.
- Continue donor coordination/synergy development activities in the forest sector.

Forestry: Wood Processing

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$322,000	67	53
Committed this quarter	\$57,000	17	5
Total committed to date	\$263,494	44	5
Remaining to be programmed	\$ 58,506	23	48

Forestry: Wood Processing**Objective 1: Expand market share and develop new products (Ongoing)****Benchmarks**

- **KPEP assisted firms develop at least three new products**

KPEP and STTA William Vernon visited 31 wood processing companies. KPEP assisted 11 of these companies to develop mini marketing plans. New product development for export markets was one of KPEP's key activities during reporting period. KPEP received inquiries for six new products; offers have been prepared for four companies and contracts have been finalized for two new products. Samples have been produced, the order has been made and the first delivery of goods is complete.

We have developed a marketing plan for Elnor, a company that specializes in wooden chairs and tables. The company established export contracts with OSSO Contract/Ireland to develop and export chairs and tabletops. KPEP and William Vernon established initial contacts with the international buyer and arranged for the delivery of a prototype chair from Kosovo to Ireland. KPEP also organized an inspection during the manufacturing process, helped to develop a purchase order and the required payments to the buyer, organized an inspection for the manufacturing of chairs and tabletops, and partially financed a first order export to Ireland.

The fireside chair and Queen Anne chair samples previously developed by Ahikos, along with traditional three leg stools produced by Aring were delivered to several possible buyers in the UK as samples.





Goods delivered to the Irish and UK markets.

Ireland's OSSO Contract has requested new products samples from Ahikos and Tefik Canga Design. We are still in process on preparing offers and samples as a result of problems that arose while trying to source flame resistant fabric and foam.

KPEP worked with Gacaferi, Tefik Canga Design and LESNA Doors and Windows to prepare products for exhibit at the Mebel Furniture Fair in Skopje, Macedonia.

- **Supported firms export new products to at least two new markets**

KPEP supported the exhibition of wood and furniture products at the Mebel Furniture Fair in Skopje, Macedonia.

Three wood processing companies exhibited their products at the Skopje fair. AWPK members Lesna, Gacaferi and Tefik Canga Design Group, Divani, Tedes and TCD also exhibited their products at the fair. Macedonian minister for Economic Development Fatmir Bislmi visited the Kosovo companies, which attracted the attention of the Macedonian media. Company representatives called KPEP to thank the program for its support and stressed that positive feedback from the fair spurred them to open a showroom in Macedonia. Due to the increased demand for exhibited products, all three companies are in negotiations to create a distribution network for their products to the Macedonian market. SAF and other KPEP components will support this activity.



USAID-supported a stand at the Skopje Furniture Fair



Our client company exhibiting at the fair



Macedonian Minister Fatmir Bislimi visiting our client companies during opening ceremonies



Media coverage of our client companies was positive



New chairs manufactured for the event



One of our clients presented a modern model kitchen at the fair

During this reporting period, KPEP visited two international furniture fairs – one in Istanbul, Turkey and the other in Frankfurt, Germany.

IMOB 2011 is part of a series of Turkish trade fairs dedicated to the furniture industry. The event took place at CNR Expo Center in Istanbul, Turkey, and attracted over 400 exhibitors. The fair focuses primarily on the Eurasian furniture market. Buyers from countries like Germany, Azerbaijan, Bulgaria, Algeria, Morocco, France, Syria, Greece, Iran, Iraq, Russia, the UAE and India offer promising opportunities for local traders in the region.

The aim of this visit was to observe new trends and overall trade trends in the furniture market in this region. Several furniture manufacturers from Kosovo participated in the fair.

KPEP helped AWPk establish cooperation with the Association of Turkish Furniture Manufacturers (MOSDER), which represents 35 of the most eminent Turkish furniture manufacturers. Per our discussions with MOSDER Secretary Gonul Cinar, members of the association export to more than 170 countries and represent 70% of Turkish furniture exports. We discussed several ideas, including an exhibition by AWPk for the next IMOB fair, an exhibition by MOSDER at the Natyra Fair and investment opportunities. AWPk and KPEP will follow to further define activities that are mutually beneficial to AWPk and MOSDER.



A group of Kosovo companies visiting the IMOB Furniture show in Istanbul, Turkey

Visiting the Ambiente Fair in Frankfurt, Germany

KPEP also visited the Ambiente Fair, one of the world's most prominent trade fairs for the consumer goods sector. The February 11 – 15 event attracted over 144,000 trade visitors; 4,383 exhibitors from 86 countries presented a range of international products, including tableware, kitchen, home, furnishing and giving. KPEP met with representatives of the Swiss Import Promotion Program (SIPPO) to identify opportunities for cooperation and explore new market trends for furniture and interior design. For more information, please see attached trip report.



Wood products at the Ambiente Furniture Show in Frankfurt, Germany

- **Sales and furniture design interns are placed in at least three firms**
 - This activity will take place in the third quarter.
 - 14 interns received full time employment and 16 interns received certificates following the wood industry internship.
- **National furniture design competition increases understanding and awareness of the importance of design capacity in the furniture sector as measured by the number of designers employed in the sector**

This activity, which is part of the internship program, has not yet started.

- **At least one major order placed with local manufacturers from a new institutional buyer**

No activity in this quarter.

- **At least 30 carpentry interns placed.**
- **At least 20 marketing and furniture design interns placed.**
- Two of the above mentioned benchmarks are addressed; WFD drafted the RFP for this activity and it is scheduled to start at the beginning of Q3.

- **Furniture design competition supported by interns attracts more interest as measured by the number of interns engaged in this area**

No activity in this quarter.

Challenges

Kosovo wood processing companies presented their products to the Macedonian market for the first time. Visits to the IMOB trade fair in Istanbul, Turkey and the Ambiente Fair in Frankfurt, Germany have presented new opportunities to our client companies. KPEP clients have made sales in the Irish market as a result of KPEP assistance. The challenges include the high cost of transportation for small loads and sourcing of materials (flame resistant foam and fabric) required by UK and Irish markets.

Activities Planned for the Next Quarter

- Prepare for the April 2011 Furniture Fair in Budva, Montenegro.
- Prepare for the local furniture fair Natyra in Pristina in May 2011.
- Start internship program for Marketing and Design personnel.
- Continue to promote a national brand through AWPK.

Forestry: Wood Processing

Objective 2: Improve production capacity and business practices of wood processing firms (Ongoing)

Benchmarks

- **At least three firms are able to produce products that meet EN or other internationally recognized standards**

No activity in this quarter.

- **At least two companies adopt HR training outcomes and modify their HR management practice.**

STTAs Alphie Holland and William Vernon, with the support of KPEP staff, held training seasons with Elnor and Tefik Canga Design, two furniture manufacturing companies. Key training topics included improving management skills, teamwork, delegating and setting up company vision objectives and strategies. Participants, who comprised 24 managers and middle managers, were very enthusiastic about the sessions and were eager to begin implementing necessary changes with new skills learned. They agreed to hold additional meetings on their own to further refine their strategy.



Training session at Tefik Canga Design



Training session at Tefik Canga Design

- **Faculty of Applied Sciences develops and adapts curriculum for Design and Wood industry technologies, and wood processing workshop layout**
- No activity in this quarter.

Additional Achievements

- No additional achievements were made during the reporting period.

Activities Planned for the Next Quarter

- Work in close cooperation with AWPk to monitor the process of curriculum development.
- Work with companies on improving their marketing and management skills.

Forestry: Wood Processing**Objective 3: Strengthen the Association of Wood Processors of Kosovo (Ongoing)**

Benchmarks

- **AWPK develops annual strategic plan**

In an effort to increase the index rate, KPEP supported the development of a strategic plan as an important part of running successful associations. This quarter, KPEP developed a strategic plan for the Wood Processing Association AWPk. BSS provided a three-year strategic plan that resulted from the workshop.

- **AWPK is able to cover at least 50% of the annual cost of implementing the annual strategic plan**

KPEP offered assistance for creation of annual work plan. KPEP also identified several strategic trade fairs the association could either participate in or host. The association will be able to cover and exceed 50% of its annual costs by collecting participation fees.

- **Increase in the AWPk Association Development Index score from 3.1 to 4**

This activity is planned for Q3.

- **Introduce at least one new member service and create a standard payment process for its members**

BSS suggested several services and products in the association's work plan. Because the prospect of a standing membership fee was not well received by members, we will explore other methods for making regular membership payments.

Additional Achievements

- KPEP supported AWPk to compile its annual operational plan. AWPk will organize a number of promotional events this coming year aimed at exposing Kosovo wood processors to markets in the region. These events include the Mebel Fair in Skopje, Macedonia, the Furniture Fair in Budva, Montenegro, the Natyra Fair in Pristina, the Albrelex Fair in Tirana, Albania and the Ambiente Fair in Zagreb, Croatia.

Activities Planned for the Next Quarter

Organize a conference with AWPk and European Federation of Furniture Manufactures, with the aim of exchanging information and bringing AWPk closer to membership in this important organization.

Forestry: Wood Processing

Objective 4: Promote use of biomass as an alternative energy source (Ongoing)

Benchmarks

- **At least two biomass-producing firms increase production capacity**

As a result of KPEP intervention, the Lipjan-based Feroda Company is in the process of increasing its manufacturing capacities. Feroda has installed new wood shredders and will soon set up a saw dust silo and dryer. Manufacturing capacities will be increased by 100%.

Additional Achievements

- The biomass study we produced during the last reporting year was translated into Albanian and delivered to a number of local companies interested in investing in the use of biomass as a resource. Two new companies have demonstrated interest in investing in this area.

Challenges

- Even though we have witnessed increased demand by client companies to support investment of biomass usage, our budget constraints do not allow us to fulfill this demand. KPEP will be using the derived demand to stimulate investment using alternative funds from the World Bank and other interested donors.

Activities Planned for the Next Quarter

- Continue to promote biomass usage and stimulate investment interest in this sector by other donors and financial institutions.

Construction: Road

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$274,000	50	0
Committed this quarter	\$260,810	0	0
Total committed to date	\$260,810	0	0
Remaining to be programmed	\$13,190	0	0

Construction: Road**Objective 1: Improve local road design capability (Ongoing)****Benchmarks**

- **Government (MTT) officials are trained on how to pursue and conduct contractual and supervisory procedures for road design according to international practices, including:**
 - Using a model RFP/Contract for design engineering services, both preliminary design and detailed engineering design.
 - Using a model RFP/Contract for construction.
 - Using a model RFP/Contract for engineering supervision work.
- This benchmark will be addressed in Quarter 3.
- **A certification/specialization program on road design and construction supervision is made available to Kosovo engineers and delivered to:**
 - At least 25 Road Design and Road Construction Graduate Engineers.
 - At least five technical government staff (MTT).
 - At least ten post-graduate students from the Faculty of Civil Engineering.

The certification course ran from February 28 to April 1, 2011. The three module course attracted 33 participants, 25 of which attended all modules. Participants who attended all modules, and

successfully pass the exam administered by the Texas Transportation Institute, will receive a certificate for the successful completion of the course and will be certified as road designers. Participants attending specific modules will receive a certificate for the successful completion the module in question.

Participant composition is as follows:

- 10 participants from the road construction industry;
- 11 participants who are completing post-graduate studies;
- 7 participants from the Ministry of Transport and Telecommunication;
- 1 participant from the Municipality of Pristina; and
- 4 participants from the University of Pristina (Professors and Teaching Assistants)

Additional Achievements

Challenges

- The Pilot Road Project is pending the decisions of the current government.
- **Activities Planned for the Next Quarter**
- Evaluate the outcome of the course and begin preparations for another course.

Construction: Road**Objective 2: Upgrade skills of construction workers (Ongoing)**

Benchmarks

- **HEOTC site and partnerships established.**
- **HEOTC established as a self-sustaining entity.**
- **At least two new HEOTC courses completed.**

KPEP has signed agreement with Kosovo Energy Corporation for the implementation of heavy equipment training. The center is established the second round of training will start at the beginning of the third quarter.

- **Accreditation of the KEK Training Center (VTC) to provide internationally recognized training.**

To be addressed in Q3. Certification of at least 15 welders to higher grades.

The contractor has been selected and the contract has been signed. We anticipate this activity will be implemented in Q3.

Additional Achievements

- KEK J.S.C. agreed to invest further in training and cover additional costs for implementation of Welders Training Center.

Challenges

- The main challenge for this activity is timing, as a result of compressed activities and a bit of a delayed start.

Activities Planned for the Next Quarter

- In close cooperation with KEK TC, monitor training materials and training delivery.

Construction: Road**Objective 3: Promote employment in road construction industry (New)**

Benchmarks

- **At least one construction sector job fair completed (To be dropped).**

Due to a lack of interest from construction companies, we have decided to drop this activity from the annual work plan.

- **At least 25 university students engaged in internships.**
- **At least 30 interns placed in the sector (up from 11 in Year 2). At least 15 candidates provided with full-time direct employment placement from job fairs.**

Due to lack of demand from private sector or construction industry, we have postponed this activity to late Q3 or the beginning of Q4.

Additional Achievements

- N/A

Challenges

- The GoK cut the budget for road construction, thus the companies are not expanding and creating new jobs.

Activities Planned for the Next Quarter

- Follow up with the RCAK association on the internship program.

Construction: Materials

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$ 180,000	35	20
Committed this quarter	\$ 30,000	0	0
Total committed to date	\$152,303	0	0
Remaining to be programmed	\$ 28,000	30	10

Construction: Materials**Objective 1: Improve architectural design and engineering services (Ongoing)**

Benchmarks

- **Support establishment of a system for professional licensing of architects and engineers by the end of 2011**

MESP has faced significant challenges to effectively work with the Working Group. The MESP will need to put forth a greater effort to establish the system in the first half of 2011. Considerable progress has been made to finalize the legislation portion of the process. With KPEP engagement, the WG prepared a new Administrative Instruction that will hopefully soon become part of the existing construction law. The new bylaw outlines all procedures to create and manage a professional examination and licensing process for architects and engineers.

The specific documentation required will include the following:

- **Develop the legislative instrument required to establish (and to define the role of) Boards to administer the professional examination process for each profession (Architects and Engineers).**

The legislative instrument is ready and is awaiting the new Minister's approval:

- Documents establishing the procedures for examinations (documentary administration and examination tribunals);
- Documents establishing the principles for examinations for each profession;
- Documents establishing draft examinations; and
- The legislative instrument required to establish or re-establish the respective professional chambers

The Administrative Instruction is ready and is awaiting the new Minister's approval:

- By-laws and operational rules to be adopted by the governing body of each professional chamber (including membership criteria, professional discipline, administration, subscriptions and so on). In due course, the legislative instrument is required in order to transfer the functions of the Boards to their respective professional chambers.
- A sustainable and fair system for professional licensing of architects and engineers.

During implementation of the Administrative Instruction, KPEP will continue to support MESP via STTA expertise, a KPEP local consultant, observation and advice to MESP to secure a fair and sustainable system with specific reference to timing of implementation as well as the costs of such licensing.

Challenges

- Working to support MESP and reach the 2010 objective deadline was impossible given the unforeseen hiatus in government. KPEP initiated the majority of WG meetings in 2010. Progress depended largely on MESP officials, since they are the main stakeholders in this project. Work progressed smoothly when KPEP managed to mobilize support within the MESP hierarchy.
- A new MESP Minister was not elected by mid-March, as planned.

- Continuation of this activity is contingent upon approval of the Working Group's prepared Administrative Instruction by the incoming MESP Minister.

Activities Planned for the Next Quarter

- Once the Minister signs the WG Administrative Instruction, KPEP will continue to support MESP in implementing the bylaw.
- KPEP's STTA will prepare a business plan for the implementation phase. The plan aims to encourage potential donors to support the implementation of the bylaw. MESP will fund part of the implementation phase costs, however the MESP budget is insufficient to cover all costs of the system implementation.
- MESP will undertake system implementation as outlined by KPEP's business plan.

Construction: Materials

Objective 2: Assist selected building materials manufacturers to be more competitive in meeting local, regional and international demand (Ongoing)

Benchmarks

- **At least five manufacturers use KPEP assistance to grow and become more competitive in the market**

Approximately nine building materials manufacturers currently receive KPEP assistance in the form of (1) manufacturer's business observation visits and consulting advice (2) investment cost sharing grants (3) researching industry trends and familiarizing government institutions on the main problems facing the construction materials industry. KPEP uses methods at two levels to support the construction materials industry: the enterprise and industry level.

- **At least three firms develop new markets as a result of applying international production standards to their manufacturing processes**

KPEP is supporting clay hollow bricks manufacturer Rizam holding with a cost-sharing equipment purchase grant. This activity will establish an internal lab to secure the quality of raw materials,

production process and final products. Rizam will have to seize opportunities to export in Albania in the short term.

- **Three locally manufactured building products received international certification**

KPEP continues to encourage building materials manufacturers in Kosovo to buy products that carry Kosovo's European harmonized standards adopted by the Ministry of Trade and Industry. The first step toward product certification is to ensure that it complies with the EN standards. Though a number of manufacturers already comply with product standards, they have failed to demonstrate this to the markets.

KPEP is supporting the Uroševac/Ferizaj based PE Pipe manufacturer Ferplast to certify two products as water drinking pipes and corrugated sewage pipes. The Slovenia based Institute of construction materials (ZAG) had offered to certify these products. In the meantime however, ZAG informed KPEP that the Slovenian government planned to change the law on construction products as PE pipes. This change may impact the value of the product certification given by the ZAG Institute. As a result, KPEP is working on the possibility of collaborating with a certifying institute in Austria to ensure that product certification will be in full accordance with EU standards/legislation on plastic pipe products.

- **Assisted firms realize an additional € 500,000 in increased sales**

We estimate a €2,000,000 increase in annual sales after Vinex and Brickos finalize their cost share investments with KPEP in 2011. Vinex is launching its newest product – a road guardrail - to the market. We expect to see how it performs in the market by the end of this year. We envision increased sales for Ferplast once the company secures its international products certification.

- **20 new jobs created at assisted firms**

At the end of March, the Viti/Vitina based Vinex launched its newest line for road guard rail production. This activity will create 25 new jobs. KPEP will contribute to this via a 10 % cost share of the investment. To date, no similar product is manufactured in Kosovo.

Beyond the 25 new jobs created, this investment will lead to a new product in the local market, an increase in the company's capacity and a 60% import substitution rate in the metal guardrail market.

KPEP is also joining forces with Brickos on a cost sharing investment to build new tunnel kiln for bricks production. KPEP's 8% cost share in the investment will contribute to increased capacities in the clay construction materials industry. This investment will lead to the creation of 30 new jobs, a 100% increase in clay products production increase and a 6% import substitution rate in the bricks market. The investment will also ensure that the company is more competitive in the market. Brick production in Kosovo fulfills 60% of the country's market demand; Kosovo imports approximately 40% of clay products as bricks from Serbia.

- **At least two firms export a product to a new market**

No activities to report this quarter.





Vinex's newest investment: New line for the production of roads guard rails, which Vinex received at the end of March 2011. An initial testing of the product is now underway. No other local company produces or galvanizes this type of product.



The Brickos Company in Kamenice: Brickos is dismantling its old kiln in order make way for a new one. This activity will increase clay bricks production by 100% and will create 30 new jobs.

Challenges

- A number of construction materials manufacturers require large investments to increase production, sales, generate new jobs and stay competitive in the local and regional markets. Most owners' investments following privatization included facilities construction. Manufacturers now face difficulties with the cash flow, high interest credit, lack of foreign direct investment and lack of government support. In the second quarter KPEP had to put on hold its support to manufacturers like Vinex, Brickos and Rizam as a result of environmental issues raised by environment experts. Measures have been taken to address this and we expect that in mid April these issues will be resolved.
- KPEP is working with individual companies on the highest priority growth opportunities, including ways to make an impact across the wider value chain in the construction industry.

Activities Planned for the Next Quarter

- Follow up on the ROI at Vinex, a metal processing manufacturer and Brickos, a brick manufacturer Brickos. We expect that Brickos' new production line will become operational by the end of 2011.
- During the last week in April, KPEP organized a roundtable also that clay brick manufacturers to discuss the most common problems and find ways to decrease operation costs. The session also addressed the issues like organizing a lobby against unjust competition from Serbia and the expensive crude oil costs for manufacturers.
- KPEP will offer to cost share major expenses at booths for several KPEP manufacturing clients who will participate in the 10th Annual EXPOKOS Construction, Energy, Technique and Furniture Fair in Pristina May 18 – 21 2011.
- Support Rizam Holding, a brick manufacturer in Krushe/Prizren in establishing an internal lab for testing raw materials, technological process and final clay products.
- KPEP will continue assist Rizam to secure financing to invest in a new roof tile production plant. The planned investment will total approximately €12 million. Currently, Kosovo does not produce clay roof tiles. All roof tiles are imported from neighboring and other countries.
- KPEP will use the services of the Notified Construction Products Certification Bodies in Austria to acquire international certification for main pipe products of Ferplast/Ferizaj. Due to the lack of EN product certification, Ferplast was not able to secure many large EU infrastructure tenders that are now being implemented in Kosovo.

Information Communication Technology (ICT)

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$242,000	20	10
Committed this quarter	\$0	16.5	0
Total committed to date	\$49,900	16.5	0
Remaining to be programmed	\$191,100	3.5	10

ICT**Objective 1: Promote foreign direct investments in BPO (New)****Benchmarks**

- **At least two companies invest in Kosovo's BPO sector, with at least 60 new hires in this subsector. The foreign investment should generate at least \$150,000 worth of IT goods and services procured locally**

KPEP promoted the Kosovo BPO sector as an attractive investment destination to local and international investors by engaging several IT and BPO companies in Kosovo that are interested in investing in this sector. We anticipate that with KPEP support two Kosovo firms with strong business ties to Germany will start piloting BPO operations with German clients in Q3.

During the second quarter, one Indian company continued to collect data about BPO opportunities in Kosovo using KPEP resources. As a result of the meetings with Indian BPO firms, the CEO of a major Indian BPO company mentioned Kosovo as (1) a potential destination for expansion and as a (2) a prominent B2B outsourcing portal (www.sourcingline.com) in an Indian news publication.

KPEP continues to work on individual opportunities from interested investors to promote the Kosovo BPO sector worldwide.

Since Kosovo firms showed minimal interest in attending the Call Center World in Berlin, KPEP supported ICT Association participation to the prominent international CeBIT ICT fair in Hannover, where three ICT firms (Rrota, Logistics Plus and PBC) presented their products. STIKK and three Kosovo firms managed to make a total of 107 new contacts at the fair. Currently, they are following up on specific opportunities and STIKK wants to conduct a survey in September 2011 to review results of this trade fair. Logistics Plus reported that they had one EU company that is seriously interested to outsource software development with their company, while another one is in talks to buy the rights for their leading software application. KPEP is looking at ways to assist them in this process.

- **At least 100 people trained and hired to work as call center agents**

STIKK launched the Call Center Training activity at the end of the first quarter by inviting interested call centers to apply for training with the association. Thus far, STIKK's progress has been disappointing. Project deliverables have been delayed because STIKK has failed to demonstrate that it can meet the benchmarks outlined in the contract. KPEP cancelled the contract.

- **The Investor Guide (1) promotes Kosovo call centers to entrepreneurs and local and international investors and (2) facilitates the establishment of new call centers. Approximately five existing call centers improve their operations or new investors believe their investment was facilitated as a result of information contained in the guide**

KPEP used the Investor Guide produced in Q1 to attract FDI from Indian BPOs as well as other foreign investors. IPAK is pleased with the guide and plans to use it as part of its investment promotion activities. This guide will serve as an essential tool to attract more local and foreign investment in this sector. IPAK and a number of businesses are using the guide to present the BPO opportunity to potential investors (or clients) in the case of local BPO ventures. IPAK also published the guide on their website and produced printed copies that were used at the CeBIT IT fair in Hannover and IPAK offices.

Additional Achievements

- KPEP promoted the Kosovo BPO sector to the CEO of one of the largest call centers in Sofia, Bulgaria. KPEP raised awareness about the sector's potential to local investors.

- US Ambassador's speech at the American Chamber of Commerce: Kosovo in the Eyes of Foreign Investors, supported BPO promotion and acknowledged the sector as a growth opportunity engaging young, multilingual, well-educated workforce in Kosovo.
- KPEP managed to increase the awareness of the BPO investment potential in Kosovo and gained support from government stakeholders such as IPAK, the Kosovo Ministry of Trade and Industry and the Kosovo ICT Association. As a result of KPEP's promotion of the sector, other donors, including the Community Development Fund, have committed to investing in this sector.
- Cactus, a Kosovo-based ICT firm, received equity investment from the European Bank for Reconstruction and Development. This is the first time an investment bank has invested in a Kosovo ICT firm. This investment will be used to modernize the company and fund new investment projects that will grow the company throughout 2011-2012, as well as help Cactus' expansion to Albania and Macedonia. KPEP advised Cactus during the process of this equity investment.

Challenges

- Kosovo's image with foreign investors deteriorated as a result of recent political events and a less than favorable recent World Bank report and Transparency International rankings.
- The Investment Promotion Agency of Kosovo has received very low funding as a result of the World Bank's withdrawal from funding its activities this year.

Activities Planned for the Next Quarter

- Call Center Training (Continued)
- Explore BPO Opportunities via Kosovars living abroad (Continued) Follow up with Indian investors

ICT

Objective 2: Improve product offering, sales and marketing of customized IT business solutions and government solutions for the local and regional market (New)

Benchmarks

- **30 local and international companies exhibit at the ICT fair. The event leads to new opportunities for local and international ICT firms to expand their product offerings and outsourcing potential in Kosovo**

Due to low interest by ICT firms to participate in local ICT fairs, KPEP is exploring opportunities to support certain activities at the ITTF 2011 fair or support local companies to attend regional IT fairs.

- **The activities outlined in this objective should generate 25 new employees and \$200,000 in transactions.**

No activity this quarter.

Additional Achievements

- KPEP developed a partnership between one of Kosovo's largest ICT firms and a Bulgarian ICT company with a substantial presence in the whole region. The partnership will allow Cactus to (1) expand its product offerings to Kosovo and Albania, and (2) to provide a distribution opportunity for its software products in the Bulgarian market. Partnership discussions are still underway.

Challenges

- Previous trade fairs held in Kosovo were unsuccessful; as a result, ICT firms have been reluctant to participate in them.

Activities Planned for the Next Quarter

- Marketing and Sales Internship for ICT Companies.

ICT**Objective 3: Foster growth of communication technology via regional expansion (Ongoing)**

Benchmarks

- **KPEP's contribution to IXP finalized**

KPEP continued to work with all stakeholders to finalize the first Kosovo IXP. KPEP has initiated the procurement for a portion of the equipment and has convinced CISCO to donate a majority of the required equipment. KPEP's contribution was successfully finalized and the equipment, together with the CISCO donated equipment, is currently at the IXT premises. The IXP Manager is finalizing pre-installation work before the PCH installer arrives. We expect the IXP installation to be finalized in April 2011.

- **TRA assumes leadership of an operational IXP**

TRA hired Agron Fazliu as the IXP Manager to lead Kosovo IXP operations starting in May 2011. Fazliu will be working with Packet Clearing House to complete the IXP installation throughout April.

- **Three local companies obtain ISO 27001, an internationally recognized security certificate that will help local ICT companies compete in local and regional tenders that require IT Internet security services.**

KPEP has decided to cancel this activity due to a low ROI and insufficient demand from the industry.

Additional Achievements

- KPEP has worked to secure additional funding for this project from the Royal Norwegian Embassy, CISCO Systems and Packet Clearing House. As a result, we have achieved substantial cost savings without altering the quality of the project.

- KPEP has promoted the upcoming launch of the Internet Exchange Point with various ICT companies, which has led to numerous initiatives to invest in data center projects.

Challenges

- Working with multiple donors and stakeholders resulted in a lengthier process, thus slowing progress.

Activities Planned for the Next Quarter

- KPEP will work with all stakeholders to finalize the first Kosovo IXP.
-

ICT

Objective 4: Strengthening STIKK and developing a long-term strategy for its sustainability (Ongoing)

Benchmarks

- **KPEP will assess and quantify the ICT Association's progress to update the Association Development Index (ADI) tool from Year 2. STIKK's ADI index score will increase from 3.1 to 4**

KPEP researched various individual membership models, which we presented to STIKK.

- **KPEP will develop new member services, including individual membership**

KPEP researched various individual membership models, which we presented to STIKK. In Q3, KPEP plans to work more closely with STIKK to launch the new member service.

- **STIKK will develop a five year strategic and financial sustainability plan**

Since the first quarter, KPEP assisted the ICT association to develop a three-year strategic plan. We scheduled 20 days of work for the assignment, which will be completed at the beginning of Q2. In Q1, KPEP reviewed the following existing documentation: activity descriptions, financial statements, donor contracts, the board and member statutes and other relevant documents. KPEP also conducted individual interviews with all 15 STIKK members, staff, contractors and

partner stakeholders, including government agencies, development agencies/funds and potential members. KPEP agreed to postpone the strategic planning workshop with STIKK members and board members. The meeting was postponed after the association's general assembly.

- **At least 30 university students recruited and placed in firms**

KPEP modified its approach to achieve this benchmark by working directly with firms that have a demand for interns. A few companies have approached KPEP with grant applications for funding internship programs within their firms.

- **At least 70% of interns hired full-time following graduation**

We anticipate that interns will be hired in Q3.

Additional Achievements

- KPEP assisted STIKK to research application forms required for individual membership of IT Professionals.
- KPEP assisted STIKK to attend the annual CeBIT trade fair in Hannover, Germany.

Challenges

- STIKK showed a lack of commitment during the strategic planning project. A workshop organized by KPEP was canceled because a significant number of STIKK board members failed to attend the event, although they confirmed participation.

Activities Planned for the Next Quarter

- Convene a workshop with STIKK members.
- Develop a final version of the strategic plan.

ICT

Objective 5: Improve the legal and regulatory environment for the ICT sector (Ongoing)

Benchmarks

- **STIKK employs the analysis in the regional ICT legal and regulatory comparison report and makes recommendations to improve the legal and regulatory environment for ICT sector competitiveness**

KPEP introduced our Business Enabling Environment Lead Zana Berisha to STIKK, who will support the association's ongoing efforts to achieve legal and regulatory reform for increased competitiveness in the ICT industry.

- **KPEP will assist STIKK to organize its advocacy efforts and to lobby for enhanced competitiveness in the industry**

KPEP advocated on behalf of STIKK at the AmCham Competitiveness Committee and presented its case for regulatory reform as a means to achieve industry growth.

Challenges

- We anticipate that STIKK's demands for reform, which focus on removing import duties and reducing the Value Added Tax on ICT products, will be challenging to fulfill as a result of (1) extensive government budget constraints and (2) issues related to the International Monetary Fund.

Activities Planned for the Next Quarter

- KPEP will continue to work with STIKK to identify the needs of the ICT industry with respect to legal and regulatory reform. KPEP's Business Enabling Environment Team Lead will continue to work closely with STIKK on this objective.

ICT**Objective 6: Develop tailored trainings based on the recommendations of the ICT Skills Gap Analysis (Ongoing)**

Benchmarks

- **Develop and deliver training commensurate with the findings of the skills gap analysis**

In Q1, STIKK started to develop a Skills Gap Analysis by compiling a questionnaire for ICT firms and ICT educational institutions. In March 2011, STIKK completed the first draft of the Skills Gap Analysis report. KPEP sent its comments and feedback to STIKK and is awaiting the final report with incorporated comments and necessary revisions.

Challenges

- The Skills Gap Analysis draft and final report was delivered to KPEP with significant delay. The draft report was of poor quality thus not acceptable. The report had major lack of analyses and relevant data. The report was returned to the contractor to be rewritten.

Activities Planned for the Next Quarter

- KPEP will continue to work with STIKK to complete the Skills Gap Analysis.

Tourism

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$208,000	42	100
Committed this quarter	\$15,150	0	0
Total committed to date	\$34,794	42	100
Remaining to be programmed	\$172,056	0	0

Tourism**Objective 1: Improve marketing of Kosovo as a tourist destination (New)****Benchmarks**

- **At least a 50% increase in the number of multi-regional tours and international tourists hosted by KPEP clients**

Despite the fact that the January-March period is typically slow due to the lack of offers for the winter season, our client firms reported total sales of 148,000 EURO, which represents a 33% increase in sales from the previous quarter. This reflects an increase in exports by over 65%. Full time employees increased to 50, compared to 29 in the previous quarter. This represents an increase of over 70%.

Our clients launched five new multi-country tours this quarter, which is a 67% increase compared to Q1. As a result of new markets penetrated during this quarter, our clients hosted 1,398 international tourists. This represents an increase of 61% compared to 869 in Q1.

Intours & Travel, one of our client agencies, has established six new partnerships with tour operators from Japan, the U.S., Canada, France, Denmark, and for the first time Serbia.

Penetration of new markets is strengthening Kosovo's competitive position as a tourist destination. This is our key objective for the tourism sector.

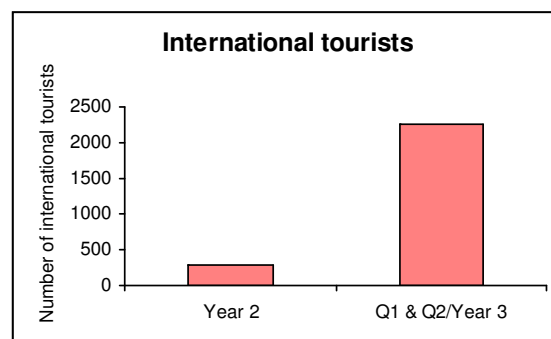
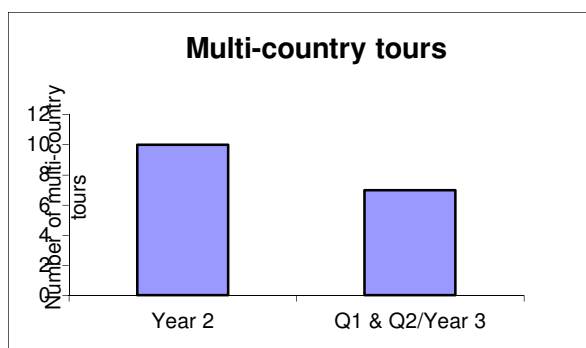


Japanese tourists hosted by Intours & Travel enjoying the local traditional food at the restaurant Pllumbi in Prishtina



Japanese tourists hosted by Intours & Travel experiencing a wine tour in Rahovec/Orahovac

With respect to Y3 benchmarks, the number of international tourists was almost eight times more than the anticipated increase of 50%. With respect to multi-country tours, the anticipated increase has not yet been achieved (23% increase over Q1 and Q2), partly as a result of the challenges we are facing in attracting Turkish tour operators as planned (refer to challenges section); this is also due to a lack of marketing materials, which are necessary for participation in international trade fairs and for Kosovo's Economic Diplomacy program. See graphs below for benchmarks:



To overcome the obstacles described above, we have made several interventions we believe will garner more robust results in the next quarter:

- Development and production of 3,000 copies of promotional CDs, which includes a page-view format of the catalogue of tourism offers published last year, images of Kosovo's tourist destinations and attractions, and an interactive tourism map. This activity is being implemented in collaboration with the KosovoGuide Company.
 - Participation in the International Conference and Exhibition for Tourism & Real Estate, which will take place in Tirana, Albania April 14-16, 2011. The Albanian Ministry of Tourism will support the event.
 - Participation in the 8th annual Travel Fair, which will take place in Pristina April 6-8, 2011, and will be supported by Kosovo's Ministry of Trade and Industry.
 - Join the USAID Europe and Eurasia Bureau's Office of Economic Growth's (EE/EG/MT) initiative with the National Geographic Society in Washington D.C. to develop and launch the Western Balkans Geotourism Website. The site will promote tourism in the Western Balkans. USAID EE/EG/MT committed \$100,000 to develop this site. KPEP obtained commitment from the KosovoGuide Company (developer of the tourism portal KosovoGuide.com) to implement this project. The company signed an MoU with SEGURA/IP3 Partners LL, the USAID Washington and NG Maps Division project implementer.
- **Commitment received for at least one new foreign direct investment in the tourism sector in Kosovo**

In the process of researching opportunities for FDI in the tourism sector, we obtained a commitment from the Investment Promotion Agency of Kosovo (IPAK) and the Izmir Chamber of Commerce to co-organize the Investment Forum in Izmir, Turkey. Beyond the tourism sector, the Investment Forum will also target other KPEP sectors with FDI potential. We believe that this event, which is tentatively scheduled for the end of June, will generate FDI opportunities in the tourism sector.

Additional Achievements

- In the last quarter, we reported that the KosovoGuide portal made excellent progress on improving content and functionality, but that it was less successful in securing financial sustainability. Following the business model of a very successful Macedonian portal, the KosovoGuide started to operate as a profitable business, generating revenues of 2,800 EURO from 16 members. This quarter's Google Analytics Report revealed 27,765 visits, which represents a 55.08% increase from the last quarter, and a 3:07 minute average time on the site (10.06% increase). Furthermore, KPEP supported the company to (1) strengthen its performance as a tourism company by developing and producing promotional CDs on a cost-share basis, (2) lead promotion of Kosovo's inbound tourism at the Pristina Travel Fair in April, (3) become a country partner of the Western Balkans Geotourism Web Site, and (4) to establish a partnership with regional tour operators to organize Regional Promotional FAM Trips in the near future.
- As part of Kosovo's Economic Diplomacy Initiative coordinated with the Ministry of Foreign Affairs (MFA), we distributed 1,500 copies of the catalogue of tourism offers through Kosovo embassies and consulates around the world. KPEP also assisted Kosovo's embassy in Tokyo to introduce Kosovo tourism during Japan Airlines' anniversary forum on March 17. KPEP will join forces with the MFA to get support of the Kosovo's Embassy in Albania for our clients that will participate in the International Tourism & Real Estate fair in Tirana, Albania. KPEP will also coordinate with Kosovo's embassy in Turkey the organization of the Kosovo-Turkey Investment Forum in Izmir, Turkey.
- Following our participation in the workshop on Regional Promotional FAM Trips held in February in Podgorica, Montenegro, KPEP worked with the KosovoGuide Company to develop an offer for integrating Kosovo into the FAM Trip Hiking Route Balkans. KPEP also worked with the TPD Consulting Company on the FAM Trip Unique Balkan Natural and Cultural Diversities. Both multi-country FAM Trips will target specific markets. The Regional Competitiveness Initiative (RCI) will work with regional tour operators to develop and coordinate clients.
- The Ranch, a hospitality company that offers restaurant and horseback riding services started to implement "hippo therapy" to help children with disabilities. The project is being undertaken in partnership with the U.K. based Riding for Disabled Association (RDA). The Ranch received a KPEP grant when it was on the verge of bankruptcy as a result of extended road construction works next to its business.

Challenges

- Our work on strategic marketing to target specific originating markets (countries) by integrating public-private cooperation remains a challenge to be addressed in the next quarter. Because of



The first group of 20 children with disabilities who received hippo therapy at The Ranch. RDA Great Britain provided assistance.

a delay in the nomination of the new Minister of Trade and Industry, KPEP did not have the opportunity to perform activities related to this issue during the course of our collaboration with our key partner, the Ministry of Trade and Industry (MTI). We hope that the new Minister will strengthen the Tourism Department with a professional and committed staff. We will approach MTI with a proposal to partner on the Western Balkans Geotourism Web Site project, which also involves the private company KosovoGuide.

- KPEP considers Turkey to be a source market with great potential for Kosovo. We also believe Turkey has an additional and potentially promising customer base. Two initiatives undertaken by KPEP however - the Familiarization (FAM) Trip in May 2010 for tourism industry representatives from Izmir, Turkey and participation in the Travel Turkey Fair in December 2010 - resulted in a small number of tourists from Turkey. While we believe that this target group continues to have great potential, our approach in penetrating this market by marketing Kosovo as a solo tourist destination proved unsuccessful. We will revise our strategy by taking advantage of opportunities to be part of regional initiatives supported by the USAID Regional Competitiveness Initiative (RCI), which aims to promote the Western Balkans as a unified tourism destination.

Activities Planned for the Next Quarter

- Continue to support Kosovo's Economic Diplomacy initiatives (in cooperation with the Ministry of Foreign Affairs) by involving Kosovo's embassies in our tourism sector activities abroad.
- Identify companies with FDI potential for the upcoming Investment Forum in Izmir and be involved in the planning phase for this event.
- Work with the Kosovo Tourism Association (KOTAS) and the Kosovo Alternative Tourism Association (KATA) to organize participation in the International Conference and Exhibition for Tourism & Real Estate that will take place in Tirana, Albania April 14-16, 2011.
- Work with KosovoGuide to organize participation to the 8th Annual Travel Fair in Pristina April 6-8, 2011. The event is being organized by the CEO and supported by the Ministry of Trade and Industry
- Follow up on implementation steps for the Western Balkans Geotourism web site. Identify other partners for cost-sharing funds with KPEP and KosovoGuide for performing in-country work.
- Follow up with the Regional Tourism Steering Committee regarding promotional regional FAM Trips. We will use the opportunity to foster the idea of targeting tour operators from Turkey.
- Collaborate with the USAID Business Enabling Environment Project (BEEP) to collaborate on performing an assessment of the tourism industry that will enable understanding of development trends.

Tourism

Objective 2: Develop integrated tourism offers for two destinations (New)

Benchmarks

- **At least two new wine tourism offers generate international tourist interest and participation**

Following the key recommendations laid out in the Wine Tourism Strategy for the Rahovec/Orahovac Region, and with the assistance and guidance of international tourism consultant Elmar Kunz, we have achieved the following progress this quarter:

- Established a Tourism Information Center (TIC) as a PPP initiative. Hotel Plaza provided the premises for the TIC, and operational costs (including six months of salary for TIC staff) were shared between the municipality (public sector) and key private sector stakeholders. Since stakeholders in both the public and private sector already see the value and benefit of TIC Rahovec, this PPP initiative has all the preconditions and features to be sustainable and to serve as best practice for Kosovo's tourism sector.
- Hired the TIC marketing assistant.
- Compiled and completed the TIC database, which will be used as a basis for product development and production of a sales guide, marketing brochure and website.
- KPEP contributed funds toward the production of basic tourism signs and for the equipment and furniture of TIC. These were based on local regional features of authenticity within the wine tourism theme. The equipment was produced by a member of the Task Force, the Beha-N Company, which offered a barrel desk for exhibition of wines at no cost.



Task Force "Wine Tourism Rahovec Region"
at the new TIC



Authentic style of furniture at new TIC
produced by task force member Beha-N

- **International study tour conducted**

Ten members of the Wine Tourism Task Force benefited from a World Learning supported study tour on wine tourism conducted in Tuscany, Italy March 14-19, 2011. Participants from Rahovec/Orahovac and Gjakova/Djakovica had a chance to witness firsthand how the wine tourism industry works. The visit was implemented by Fufuns Wine & Gourmet Tours in Tuscany. Based on the lessons learned from this successful study trip, participants identified business ideas that will lead them to develop wine tourism offers appealing to international tourists. Ideas included a wine and souvenir shop, including a sampling area at Hotel Plaza; a multifunctional wine themed meeting room at Hotel Plaza in Rahovec; a Vinotheque at Hotel Qarshija e Jupave in Gjakova, production of wine themed furniture and souvenirs by Beha-N, and a museum/ exhibition area.

Examples of lessons learned from Wine Tourism study tour in Tuscany/Italy:



Wine Museum



Enoteca Italiana



Exhibition area at Tourist Info Center



Wine cellar entrance

- **Increased the number of small businesses involved in tourism in targeted regions**

As a result of our activities in wine tourism, seven businesses from Rahovec/Orahovac and Gjakova/Djakovica are involved in tourism activities, while three new ones have confirmed commitment. As we attempt to expand the number of small businesses involved, we are faced with a lack of community awareness and understanding of needs, requirements and chances to operate as a tourism business (e.g., B&B and accommodation facilities, farms of local products to be used for visitors, etc.).

- **Development of at least two new products through regional offers**

There was no progress this quarter with respect to the development of integrated regional offers in the Dukagjini region due to the Project's priorities for wine tourism initiatives. We believe we can finalize the work already initiated on rafting and fishing next quarter. We also plan to initiate promotion of this new product via a regional offer in the Dukagjini region.

Challenges

- Kosovo faces a massive garbage and waste problem. This is evident even in tourist areas like Rahovec/Orahovac. We will work to promote wine tourism initiatives among donors and other relevant institutions to generate support for awareness campaigns and education of citizens regarding environmental protection.
- There is a lack of awareness among citizens on the value and opportunities available through wine tourism. We will address this issue in the next quarter by organizing workshops in Rahovec/Orahovac and Gjakova/Djakovica

Activities Planned for the Next Quarter

- Continue to implement key recommendations of the Wine Tourism Strategy in the Rahovec/Orahovac region.
- Finalize product development for rafting and fishing and initiate promotion via a regional offer in the Dukagjini region.
- Identify opportunities for organizing an integrated tourism event that will involve at least two municipalities in the Dukagjini region.

Tourism

Objective 3: Strengthen the Kosovo Tourism Association (KOTAS) and the Kosovo Alternative Tourism Association (KATA) (New)

Benchmarks

- **KOTAS's ADI index score will be increased from 2 – 4**

No achievements this quarter. We plan to assess and quantify progress made by tourism business associations with the Association Development Index (ADI) tool that will begin in the third quarter of Year 3. We will share the results of the ADI with associations.

- **At least one new member service will be developed**

After successfully adapting the three-year strategic plan, the Kosovo Alternative Tourism Association (KATA) has launched a new member service regarding the Administrative Instruction for Classification and Categorization of Hotels. A series of workshops will be organized in partnership with the Ministry of Trade and Industry (MTI) and TAM-BAS program. Implementation will begin next quarter.

- **KOTAS/KATA will develop a five year strategic and financial sustainability plan**

Both associations received a draft three-year strategic plan that resulted from KPEP assistance. Unlike KOTAS, the KATA association has successfully adapted the draft plan and has created an annual work plan currently under review by KPEP for further support.

- **Integrate Kosovo Alternative Tourism Association (KATA) into the ADI survey and compare its level of effectiveness**

KATA has been integrated into the index; the implementation of this benchmark is expected to begin in Quarter 3.

Challenges

- Following the workshop, KOTAS has been unresponsive to KPEP's invitations for finalizing the three-year strategic plan. As a result, no further work has developed, nor has a plan been introduced with any new member service. Furthermore, KPEP will stop providing targeted assistance and trainings that focus on improving the association's human resource capacities, the quality and variety of member services, and its financial sustainability. Taking into consideration however that some of KOTAS members are key to achieving benchmarks in the tourism sector, as well for the general development of Kosovo's tourism industry, we will involve KOTAS in KPEP- supported activities as appropriate.

Activities Planned for the Next Quarter

- KATA, in partnership with MTI, will organize April 9-10 workshops in Pristina aimed at introducing hospitality related companies' requirements for Administrative Instruction for Classification and Categorization of Hotels. The workshops will also focus on the process of acquiring categorization by stars.

Tourism

Objective 4: Improve workforce skills in tourism - WfD (New)

Benchmarks

- **At least ten interns placed in the tourism sector**
- **At least 30 new full time job placements created via job fairs in this sector**

Due to the above-mentioned cooperation obstacles with KOTAS, and considering that KATA is a newly established association that has not yet consolidated its membership, we do not believe that launching internship programs in tourism sector is feasible at this time. Nonetheless , we can undertake initiatives to generate new jobs- KATA has expressed interest in organizing a job fair next quarter.

Activities Planned for the Next Quarter

- Launch Tourism Job Fair.

Recycling

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$75,000	0	20
Committed this quarter	\$52,299	0	0
Total committed to date	\$76,161	0	0
Remaining to be programmed	\$1,161	0	0

Recycling

Objective 1: Increase the number of municipalities that have commercial recycling capacities (New)

Benchmarks

- **At least two municipality-based new collection points are established**

A grant to support Grenteh enabled the establishment of three new municipality-based collection points, in addition to four existing ones that benefited from baling presses for recyclable materials. Highlights of the successful outcome from this grant support are as following:

- A 121% increase in the number of collectors involved in recyclable materials collection.
- A 191% increase in the quantity of recyclable materials collected.

- **At least one paper recycling or processing facility reduces dependence on imported raw materials**

The AG Group Company completed the installation of new technology for recycling pulping waste paper to substitute imported raw material for production of hygienic paper products. The company

received the grant for a technical assistance of international engineers to train machine operators. The testing production series will start early next quarter.

Additional Achievements

- KPEP helped the Rahovec/Orahovac based company Gëzimi, which produces cardboard and cardboard packaging, to complete the questionnaire for an upcoming USAID PFS/RCI Regional Finance Fair and Matchmaking to be held in Skopje June 14-15, 2011. The event aims to identify FDI for planned investments in wastepaper recycling. KPEP linked the company with the Community Development Fund (CDF) aiming grants for installation of new production line for pizza cardboard.

Challenges

- The interest of private companies to either install new recycling activities or to expand existing ones is rapidly increasing. Though these companies are approaching KPEP for grants, we unfortunately do not have available funds in order to take into consideration new activities in the recycling sector.

Activities Planned for the Next Quarter

- No activities planned

Component 2: Business Support Services (BSS)

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$22,000	20	25
Committed this quarter	\$18,000	20	30
Total committed to date	\$3,000	20	30
Remaining to be programmed	\$1,000	0	0

Business Support Services – Stand-alone element

Objective 1: Enhance the internal organizational capacity of associations (Ongoing)

Benchmarks

- **All Association clients receive Year 3 ADI assessment reports**

This benchmark will be addressed in Q3.

- **Increase of the index rate as projected on the ADI Table**

In an effort to increase the index rate, KPEP began to support the development of a strategic plan as an important part of running successful associations. This quarter, KPEP developed a strategic plan for the following associations:

- AWPk –Wood Processing Association
- KOTAS – Tourism Association
- KATA – Kosovo Alternative Tourism Association

All three associations received a draft three-year strategic plan that resulted from the workshop. Two out of these three associations have successfully adapted the draft plans and created 2011 annual work plans, which are currently being implemented by their members.

- **Develop a roadmap strategy for Tier 1 Associations and umbrella associations**

BSS, in close cooperation with the BEE component, has undertaken several activities in this area. Please refer to the BEE section of this report for further details.

- **Established Management Consultant Association that meets ICMCI requirements**

The BAS program, in cooperation USAID/KPEP is continuing to provide support to the Management Consultant Association and the Management Consultant Association. BSS is also providing assistance on the identified areas to match ICMCI requirements. We anticipate this task will be completed by the middle of Q3.

- **Develop a roadmap strategy for Tier 1 Associations and umbrella associations**

In cooperation with BEE, we have decided to put this activity on hold, due to the fact that there is an initiative from BEEP, DFID and EU SME to coordinate the entire future support that will be provided to business associations.

Challenges

- The ICT association in Kosovo (STIKK) has also been targeted as an association in need of KPEP support to draft a strategic plan. We organized the workshop, but due to low attendance by STIKK board members, it had to be postponed.
- Kosovo's tourism organization (KOTAS) the tourism association has not demonstrated interest in KPEP assistance to further develop its 2011 action plan. KPEP had previously drafted a strategic plan for KOTAS.

Activities Planned for the Next Quarter

- We decided to hold a second workshop for STIKK in mid May. The tentative date is May 14.
- Follow up on cross coordination activities by different stakeholders on capacity building for business associations.
- Follow up and monitor progress of sector specific associations.
- Perform Association Development Index (ADI) survey.

Component 3: Business Enabling Environment (BEE)

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$0	0	0
Committed this quarter	N/A	N/A	N/A
Total committed to date	N/A	N/A	N/A
Remaining to be programmed	N/A	N/A	N/A

Business Enabling Environment

Objective 1: Monitor BEE and Kosovo Legislative Strategy for relevant issues. Engage and intervene where appropriate (Ongoing)

Benchmarks

- **At least one new legislative intervention in support of KPEP sectors investigated.**

Draft Law on Construction – At the end of Year 2, the Draft Law on Construction was near completion and on target for a submission deadline. We met the deadline and delivered the consultant's final proposed draft of the construction law to USAID. In turn, USAID delivered the proposal to the Office of the Deputy Prime Minister. Unfortunately, we have seen no progress on the law given the institutional vacuum and the dissolution of the government. No activity in this quarter.

Challenges

- As has been the case for a number of issues where the government should take the lead, progress on this draft law came to a halt due to the dissolution of the GoK and the Assembly of Kosovo. No activity in this quarter.

- Following the creation of a new government however, all laws that remain pending in the Assembly will be returned to the GoK; thus, there will be an opportunity to rework certain draft laws if the interest arises. No activity in this quarter.

Activities Planned for the Next Quarter

- Depending on the next steps taken by the GoK, KPEP BEE will continue to offer support for pieces of legislation relevant to KPEP objectives. KPEP BEE will also intervene and investigate legislation deemed important for KPEP clients.

Trade Facilitation**Additional Achievements**

- **Trade Facilitation - Establishment of a close cooperation with KBEEP**

KPEP clients reported a number of trade related issues and problems. Potatoes, animal feed, dairy and seedlings face particular challenges, a majority of which are specific to exports and issues with CEFTA implementation (reevaluation of prices, rejection of phyto-sanitary certificates, VAT, etc). KPEP BEE drafted a memorandum submitted to Kosovo's Ministry of Economy and Finance (MEF), Kosovo Customs, USAID, and the Kosovo Chamber of Commerce. MEF informed us that the Prime Minister of Albania received the memorandum. Because KBEEP works specifically on business legislation issues and is in the process of establishing a GoK Trade Policy Working Group (TPWG), KPEP BEE addressed trade legislation problems and joined forces with KBEEP representatives to speak with KPEP clients about their concerns. KPEP is working with KBEEP to prepare documentation that includes proposals the TPWG can use to address these issues at the state level. KPEP and KBEEP have also drafted an administrative appeal on the reevaluation of prices that will be submitted to the Albanian Institutions.

KPEP and KBEEP organized another meeting with the potato importer from Albania, presented him with a draft appeal and advised him on additional steps required for submission and processing within Albanian Institutions. For further information, please see the Agriculture Section of this report.

KPEP's hands-on field experience and a large pool of clients and contacts has proven to be valuable to KBEEP's clients, particularly with respect to BIO licensing and certification and HACCP standards. KPEP BEE established a close cooperation between KPEP specific sectors and KBEEP in this regard. As a result of this established cooperation, KPEP NWFP is working very closely with KBEEP on the BIO Licensing and Certification of honey produced in the Peja/Pec region.

We have also collaborated with KBEEP on grant applications. KPEP often receives applications from clients whose activities are better suited for KBEEP's program. As a result, we have agreed to serve as an information repository for both KPEP and KBEEP clients, encouraging the development of Kosovo's private sector economy.

KPEP BEE initiated a meeting with the KPEP Tourism Specialist and KBEEP regarding a tourism sector study. We agreed that such a study would be mutually beneficial our projects, since it would cover both qualitative and quantitative data on the actual situation of the tourism sector. The goal of this study is to create a comprehensive repository of information, which would serve as the basis for recommendations to the GoK on the legislative, regulatory and organizational measures that must be taken in order to improve tourism in Kosovo. KBEEP will finance the study. KPEP will provide expertise, experience and tourism industry contacts.

In our conversations with various contacts, we discovered there were no comprehensive step-by-step guidelines for opening and registering a business in Kosovo. Since KBEEP has proposed to the GoK a change in legislation for various registrations, KPEP BEE and KBEEP will work together to develop these guidelines. Work on developing these guidelines will begin as soon as the KBEEP proposed changes to the GoK come into effect. No progress has been made on this issue, due to pending approval of the regulatory changes proposed by KBEEP.

Another aspect of our cooperation with KBEEP is KPEP BEE's active participation in the regional focus groups KBEEP has organized in order to better understand current legislative issues and challenges that businesses face in their day-to-day operations. KPEP BEE actively participated in these focus groups and informed KPEP clients how to express their concerns within these focus groups. Following the completion of the groups, KBEEP, in cooperation with AmCham, began organizing roundtable discussions on the issues identified during the focus groups. KPEP BEE and KPEP sector specialists were invited to participate in these discussions. KPEP BEE presented a

number of suggestions and comments relevant to KPEP's clients. KPEP BEE will continue to engage in these roundtable discussions, which will continue throughout Q3.

Challenges

- We continue to face challenges related to the ongoing turmoil in the GoK, the Assembly of Kosovo and the Presidency. Political turbulence and the instability of institutions prevent us from properly channeling our initiatives and resources.
- The lack of implementation of CEFTA by some of its members remains a key issue for Kosovo. Serbia and Bosnia and Herzegovina have prevented goods carrying a Republic of Kosovo stamp to transit through their territory. This further hinders exports of Kosovo produced goods. Kosovo took over the CEFTA Presidency in January 2011, and will address the transit issue in future CEFTA meetings.

Activities Planned for the Next Quarter

- KPEP BEE will continue its cooperation with KBEEP on trade related issues; we will continue to cooperate and assist with the BIO Licensing and HACCP certification of honey.
- KPEP BEE, together with the KPEP Tourism Specialist will continue our close cooperation with KBEEP regarding the tourism sector study. During the next quarter, KPEP and KBEEP will work on the criteria, methodology and the timeframe of the study.
- We will actively participate and contribute to roundtable discussions organized by KBEEP and AmCham. We will continue to cooperate on different issues as they arise.

Foreign Direct Investment - FDI

Additional Achievements

- **Economic Diplomacy Task Force - Establishment of a close cooperation with USAID Kosovo Ministry of Foreign Affairs Support Project (KMFASP) implemented by DAI**

Realizing that there is an enormous need to attract foreign investment to Kosovo, KPEP BEE partnered with other donor projects to form an Economic Diplomacy Task Force (EDTF). We

asked USAID projects related to FDI, European Commission projects, GoK Ministries and IPAK, to join the group and to join forces to promote Kosovo's potential as an investment destination.

As a result of this cooperation between projects, DAI organized an Economic Diplomacy Training for Kosovo diplomats working in Kosovo Embassies around the world. The aim of the training was to arm Kosovo diplomats with skills on promoting Kosovo as an FDI destination and promoting Kosovo products in the countries they work. KPEP supported effort by offering two presentations during the training; (1) a session on Incoterms and Letters of Credit organized by KPEP BEE and (2) the Kosovo as a Tourism Destination presented by Tourist Specialist. KPEP provided information on (1) certified products from Kosovo that meet international standards and are suitable for export and (2) Greenfield Investment Briefers that were developed by KPEP BEE in Year 2. KPEP materials were included in the study packet for the training.

During the second quarter, KPEP hosted a follow-on EDTF meeting. All participating projects had the opportunity to discuss achievements, obstacles and suggestions for FDI and exports. The issues discussed included incentives for the World Bank Doing Business Report, the possibility of creating a more effective Trade Representation Office, and a request made by the PM's office that regulatory proposals made by donors should be extended to local counterparts (different ministries and offices) as well as the PM's office. KMFASP reported that the diplomat training was a success; Kosovo diplomats are now very active in (1) presenting Kosovo products at international trade shows, and (2) promoting Kosovo as a destination for potential investment. These efforts have resulted in the export of two contingencies in the amount of 80 thousand liters of *Stonecastle* wine from Kosovo's Rahovec/Orahovac region to the US Market. These are the first two out of four contingencies under contract. The Embassy of Kosovo in Washington D.C. played an active role in facilitating this transaction.

Challenges

- The ongoing challenges with respect to FDI are the (1) lack of implementation of legislation and (2) the difficult and discouraging procedures for opening a business.
- Another challenge with respect to exports is the imminent lapsing of a ten-year Free Trade Agreement between Kosovo and the European Union. The agreement allowed Kosovo to export goods into the EU zone duty-free. Kosovo has begun administrative preparations for negotiating a new Free Trade Agreement with the EU.

Activities Planned for the Next Quarter

- KPEP will continue as a member of EDTF and will contribute as needed within the scope of KPEP's project objectives.

Advocacy Strategy – Assisting KPEP Business Support Services (BSS)

The Advocacy Strategy developed by KPEP BEE in Year 2 summarizes the concrete steps and procedures that a draft law must pass before it becomes effective and applicable. KPEP BEE worked with KPEP BSS to prepare training material based on the prior Advocacy Strategy for various associations in Kosovo. The training aims to increase lobbying capacities for associations. We developed a position paper sample and a survey aimed at identifying the key legislative issues that KPEP clients face.

As a result of different donor projects working to develop the capacities of business associations however, KPEP, KBEEP, the European Union Small and Medium Enterprises (EU SME) and the Department for International Development (DFID) met to coordinate our efforts with respect to overall assistance. This coordination would allow associations to perform different tasks. Because donor projects work and assist associations in different ways, cooperation will be a key to offering comprehensive assistance to associations. Donors will have defined roles for how they assist associations and this assistance will be commensurate with their fields of specialization. As a result of this cooperative effort, KPEP's Advocacy Strategy Roadmap Training is on standby, pending further coordination and agreement between projects.

BEE and BSS also worked together on the Business Models for Association. In order for farmers' associations to provide better services to its members, as well as generate income, they must become cooperatives. We reviewed and updated documents developed by international and local STTAs regarding Business Models for Association. We also analyzed legislative pieces and compiled a complete package of information we plan to present to the Farmers' Associations.

We visited the Perdrini Farmers' Association in Krusha e Madhe and discussed with them the process of transition toward a farmers' cooperative. Perdrini welcomed the KPEP initiative and expressed a willingness to reorganize. KPEP translated the draft statute for a cooperative, which was developed by a group of local and international STTAs. The draft statute will be delivered and

discussed with Perdrini and if agreed, the Founding Assembly will adopt it. Following this step, the cooperative will be registered.

Challenges

- No major challenges identified with respect to coordination amongst donor projects on capacity building for associations. However, if the coordination process fails, KPEP will move ahead with its Advocacy Strategy Roadmap Training.
- No major challenges identified with respect to farmers' cooperatives.

Activities Planned for the Next Quarter

- KPEP BEE and BSS will continue to cooperate with other donor projects with respect to capacity building for associations.
- KPEP BEE and BSS will continue to visit farmers associations and discuss with them the idea of transitioning to cooperatives. KPEP will also provide ongoing assistance with document preparation and registration.

Cooperation with KPEP Construction Sector – MOU for Heavy Equipment Operators Training

As a result of a high demand for qualified operators, the KPEP Construction Sector is establishing a Heavy Equipment Operators Training Center in partnership with the Kosovo Energy Corporation (KEC). HeviCert, an international consulting company that provides expertise, personnel, curriculum, training materials and certification for the heavy equipment operators will implement the training. The construction specialist requested KPEP BEE assistance to draft an MOU, which will be signed by KPEP and KEK for the establishment of the center; the MOU is drafted and is awaiting signature.

Challenges

- Due to the changes in contracting between HeviCert, KEC and KPEP, the MOU required redrafting.

Activities Planned for the Next Quarter

- KPEP BEE will continue to offer assistance, as needed, until the MOU is signed.

Cooperation with other donor projects and institutions

European Union Small and Medium Enterprise (EU SME)

KPEP BEE met with EU SME to discuss possibilities for cooperation between the two projects. KPEP actively participated in the development of the SME Strategy for Kosovo and attended meetings and discussions on a strategy for topics related to KPEP's work.

The EU SME project organized an SME Strategy Development Conference. The aim of this conference was to further expand the network of professionals that can contribute to strengthening the strategy. The strategy is a crucial document for the future development of Kosovo's SME Sector as a main generator of jobs. KPEP actively participated in the conference, delivering recommendations and ideas.

Cooperation with USAID Systems for Enforcing Agreements and Decisions (SEAD)

SEAD is creating standard form contracts for various business sectors in Kosovo. This is part of an effort to standardize, facilitate conclusion, and enforce all contracts. As a result of our work across various sectors, we have been invited to (1) share our knowledge and contacts with different sectors and to (2) be a member of the panel during the roundtable discussions regarding relevant standard form contracts. The initial roundtable discussion will focus on Standard Form Contracts for Construction Works and will include associations and individual stakeholders in the construction field. KPEP will cooperate with SEAD in Standard Form Contracts, which are relevant to KPEP sectors.

Cooperation with the American Chamber of Commerce in Kosovo (AmCham)

We continued our strong cooperation with AmCham, which we established at the start of the Project. KPEP hosted and presided over AmCham's Competitiveness Committee Meeting, where members of the committee discussed legislative and trade issues currently facing Kosovo businesses. AmCham will prepare comprehensive analyses and offer recommendations on these issues. We will distribute them to members of the committee for comment. Afterwards, the analyses and proposals will be delivered to the GoK.

KPEP is also a member of a Task Force on Public Procurement Law established by AmCham. During the meeting, participants chose a chairperson who will be in charge of gathering all member concerns specific to issues arising from the law. A range of issues raised during the meeting will be compiled into a single comprehensive document and will be discussed during the next meeting. The goal of this task force is to identify key issues with the Public Procurement and offer a unanimous approach in addressing these issues to relevant institutions.

Challenges

- No major challenges for cooperation with donor projects and institutions have been identified.

Activities Planned for the Next Quarter

- KPEP BEE will continue its close cooperation with all donor projects and institutions in all aspects of work relevant to KPEP clients.

Component 4: Work Force Development (WFD)

	SAF Budget Estimate	International STTA (No. of days)	Local STTA (No. of days)
	\$394,561	0	50
Committed this quarter	\$315,937	0	35
Total committed to date	\$315,937	0	35
Remaining to be programmed	\$78,624	0	15

Work Force Development

Objective 1: Institutionalize training programs within local workforce development organizations to ensure sustainability (Ongoing)

Benchmarks

- One curriculum proposal prepared and offered to MEST National Council for Curriculum Development
- Offer coaching and technical assistance to teachers who will implement the new curriculum at the VTCs and/or VET.

KPEP signed an MOU with Swiss Contact to implement the HACCP teacher training program at five agriculture schools. The program will be conducted by a local STTA.

This activity is still in the implementation process. The HACCP curriculum will be integrated within the Food and Safety Standards and will be offered by mid May to Ministry of Education Science and Technology (MEST) at the National Council for Curriculum Development. The MEST Vocational Education and Training (VET) Division has approved KPEP and Swiss Contact's initiative to train teachers at five agricultural VETs and to accredit the HACCP curricula.

- **The Banking and Finance training program will be accredited by the EBTN/EFCB and by the University of Prishtina, Faculty of Economy.**

We have completed nearly 80% of the required tasks. We are currently focused on preparing the application for accreditation. During the month of March we sent the last draft application to the chairman and to the vice-chairperson of the EBTN accreditation committee - the Chartered Institute of Bankers in Scotland and the Training Center of the Slovenian Bankers Association, respectively. These two institutions have given a positive preliminary assessment.

The following tasks have been completed with respect to the draft application for accreditation:

- Validation of 280 questions, ensuring high language quality; and 100% accuracy with respect to question numbering;
- Drafting of tutorial material according to the principles, as set out in our December 2010 guidelines.
- Pursuing the overall evaluation by the HR/Training departments of the new program's set-up and further implementation steps. Ensuring that ownership is well understood; sustainability will depend on ongoing support.
- Development of web application, web services and system supplier.
- Preparation for program implementation will continue and will include a description of the examination procedures in the form of a publicly available regulation for future participants of the KBA program.
- At least 100 students will be certified with internationally recognized certificates; at least 80 of these will be hired by banking/microfinance institutions.

This activity will take place during Q4.

Additional Achievements

- Swiss Contact agreed to (1) cover accommodation costs for 15 teachers who will participate in the HACCP teacher training program and to (2) provide a training facility for the practical part of the training. We had a very good cooperation with AUK and KBA on the development of EFCB Course.

Challenges

- We will continue to pursue cooperation with the University of Prishtina, Faculty of Economics and KBA on the EFCB Course.

Activities Planned for the Next Quarter

- Identify teachers at five Agriculture VETs committed and willing to participate in the HACCP training program.
 - Develop and adapt integration of HACCP Curriculum on Food and Safety Standards Curriculum
 - Ensure that the local STTA assigned to conduct the HACCP training prepares all necessary training materials for teacher training, tests and other materials.
-

Workforce Development

Objective 2: Assist selected workforce development institutions to better meet the needs of industry; ensure that training is more practical and experience-based (Ongoing)

Benchmarks

- **Internships with public institutions are replicated and expanded in at least one other ministry and with municipalities.**

This activity was completed in Q1. No further action required.

- **Industry registers at least 300 interns that are successfully recruited and placed.**
- **At least 40% of interns are hired full-time following graduation.**

The implementation of this activity is in the early stages. We began training 300 interns on April 1. Before they begin the internship program, they will be trained on the following subjects:

- Soft Skills
- Bookkeeping
- FS Analyses

- Accounting for Tax Purposes

AFAS identified various commercial banks and other companies such as IPKO, PTK and some other MFIs, where 300 interns will be placed for a period of six months. We anticipate that following completion of the six-month internship phase, 40% of the 300 interns will be placed at FTE jobs.

- **At least five bi-monthly meetings held with donors on the specific areas of WFD**

We are continuing our meetings on curriculum development, the institutionalization of the internship program and the VET strategic plan. We organized five meetings with Swiss Contact, UNDP, YEP-USAID, Mercy Corps-USAID, the Kosovo Chamber of Commerce, the EU SME Project, the Ministry of Labor, the Ministry of Education, the Ministry of Science and Technology and DANIDA.

We completed the following tasks this quarter:

- Creation of internship target groups; KPEP will lead the Senior Students target group.
- We have standardized the internship procedures and have created uniform procedures on the placement, evaluation and closure of the internship program.

Additional Achievements

- KPEP, WUS Austria/Kosovo, and the Kosovo Chamber of Commerce agreed to work on (1) a strategy to place 2,000 Interns in different sectors and (2) to work on institutionalization at the university level.

Challenges

- MEST, VET Division has not been particularly responsive to donor meetings specific to the curriculum development and internship institutionalization sub-group.

Activities Planned for the Next Quarter

- Attend a series of meetings with donors and other stakeholders on the WFD subject.
- Monitor placements.
- KPEP, in cooperation with WUS Austria and KCC, will work on with on a strategy to place 2,000 interns in diverse industries.
- Monitoring and follow-up.

Workforce Development

Objective 3: Create economic opportunities by enhancing the entrepreneurial skills of young adults (Ongoing)

Benchmarks

- **Entrepreneurship training provided in at least ten new target municipalities.**
- **At least 300 trainees receive tested entrepreneurship training.**
- **At least 125 trainees are recruited to participate in advanced entrepreneurship training.**

As requested, the entrepreneurship training started with a pre-phase. BSCK has revised curricula and has adapted training materials to match our requirements. BSCK has identified the following ten municipalities to perform the entrepreneurship training:

- Rahovec/Orahovac
- Malishevë/Malisevo
- Suharekë/Suva Reka
- Klinë/Klina
- Gjakovë/Gjakovica
- Dragash/Dragas
- Shtime/Stimle
- Kaçanik/Kacanik
- Istog/Istok
- Deçan/Decane

Following the end of the entrepreneurship program, we launched the promotion campaign from February 2 - March 4. The channels of communication used for this promotion campaign include flyers, posters, newspaper ads and radio ads.

BSCK has received 899 applicants during the selection phase. After reviewing the applications, we selected an average of 35 participants from each municipality for the first phase of training; we selected a total of 300 participants from ten municipalities.

The advanced training for 125 participants started March 21.

- At least 100 youth complete the advanced training program and complete business plans.
- At least 40% of business plans are successfully matched with micro-finance resources.

The previous two benchmarks will be addressed in Quarter 3.

- At least 50 new jobs are created.
- At least 20% of successful entrepreneurs receive follow-on support.

The previous two benchmarks will be addressed in Q4.

- Coordination procedures developed with new USAID YEP project.

We signed a BSCK contract to implement the second phase of the entrepreneurship training. BSCK identified partner institutions in ten pre-identified municipalities where training will be implemented.

- **At least 30 business women trained**

We signed a contract with two local KPEP-trained STTAs. The STTAs conducted research in three municipalities (Gjakova/Djakovica, Prizren and Gjilan/Gnjilane) to gauge the interest of businesswomen to participate in the training. During the second quarter, 40 women business owners from these three municipalities received certification after completing the three-day training, which was tailored to their requests and business-development needs. The training consisted of basic techniques on writing project proposals, business negotiations and marketing. The Young Entrepreneurs Project and the Community Development Fund (who previously signed an MOU with KPEP) participated as special guests in all three municipalities, met the participants and presented them with possibilities for collaboration. They also requested criteria for donation that can help them develop, further expand their business, and increase sales by at least 10%.



Women's training

- **Increase sales by up to 10% over Year 2 for business women**

This benchmark will be addressed in Q3.

Challenges

Activities Planned for the Next Quarter

- Dedicate a fixed set of mentoring hours to each participant and assess their progress following training.
- In collaboration with CDF, identify potentially successful projects by women who participated in the training.
- Participate in recruiting 300 candidates who will apply for entrepreneurship training.
- Monitor and follow up on entrepreneurship activity.

Performance Based-Management System

1. Summary

During the period ending on March 31, 2011, KPEP-supported firms achieved significant growth in sales, investment, and full time jobs. The cumulative target increase in sales to date was set at €30.1 million. Cumulative Life of the Project (LOP) increase in sales is €51.5 million, which means that we have already exceeded not only the target increase for year three, but also the target sales increase for the LOP. The main contributors for the increase in sales are the construction sector with 40.2 percent, agriculture with 27.3 percent, and forestry and wood processing with 22.8 percent, while ICT sector contributed with 5.1 percent, BSPs sector contributed with 2.2% percent and tourism sector with 1.7 percent. Cumulative LOP investment growth is €18.8 million, already

Progress to Date Highlights			
	Q2 Y3 Target	Q2 Y3 Actual	Performance Evaluation
Increase in sales [†] , million Euros	30.1	51.5	↑
Increase in investment, million Euros	12.0	18.8	↑
Increase in exports, million Euros	-	26.4	↑
Increase in number of full time jobs [‡]	3,024	2,353	↓
Number of enterprises assisted in KPEP database	97	75	↓
Number of business services providers (BSPs)	32	16	↓
Number of people trained	2,550	4,983	↑

exceeding the quarter to date target of €12.0 million and the Year 3 target of €16 million. The main contributors for the increase in investment are companies in the construction sector with 61 percent, agriculture with 19 percent, and forestry and wood processing sector with 17 percent. ICT, tourism and recycling sectors contributed altogether with three (3) percent. During the last quarter alone, there was an increase in investment of €1.5 million in all sectors. USAID KPEP-assisted companies have added 2,353 full time equivalent (FTE) jobs since the beginning of the project. While we are still below our Year 3 target

[†] This figure combines sales increase in targeted sectors and BSPs.

[‡] This figure combines FTE jobs increase in targeted sectors and BSPs.

increase of 4,031 FTE jobs, this is a very good result given the seasonal nature of our major sectors (agriculture and construction) and the ongoing effects of the global economic downturn. The KPEP sectors and components account for this as follows: agriculture sector with 41.1 percent, the construction sector with 26.5 percent, forestry and wood processing with 15.4 percent, ICT with 5.3 percent, BSPs with 4.5 percent, tourism sector with 4.4 percent, and recycling and other sectors with 2.8 percent. During the last quarter alone, there was an increase of 459 FTE jobs in all sectors. Cumulative LOP data for exports show an increase over the baseline of €26.4 million. The exports/imports coverage ratio for KPEP supported sectors is at 61.3 percent. The Kosovo-wide data show a 14.2 percent exports/imports coverage ratio for the period from October 2010 to January 2011. The main contributors for the increase in exports at KPEP enterprises are agriculture sector with 41.5 percent and construction with 33.1 percent.

Below is the performance of KPEP sectors and sub-sectors for the LOP on the key indicators: sales, exports, jobs and investment.

Sector	Sub-sector	Increase in sales	Increase in exports	Increase in FTE	Increase in investment
Agriculture		14,019,396	12,181,650	967	3,512,195
	Dairy	10,028,216	956,523	273	1,593,839
	Fruits and vegetables	5,295,200	4,659,917	259	1,069,056
	Non-wood forest products	(1,456,687)	6,565,210	313	849,300
	Poultry meat processing	152,667	-	122	-
Construction		20,663,934	10,690,043	623	1,535,194
	Construction Materials	2,411,674	39,983	224	5,138,982
	Road Construction	18,252,260	10,650,060	399	6,396,212
ICT		2,618,169	35,000	124	226,337
	ICT	2,618,169	35,000	124	226,337
Tourism		886,224	316,420	104	208,148
	Tourism	886,224	316,420	104	208,148
Recycling		(15,639)	28,673	3	3,131
	Recycling	(15,639)	28,673	3	3,131
Other		313,443	-	62	15,000
	Other	313,443	-	62	15,000
Forestry & Wood Processing		11,729,659	3,187,222	363	3,327,372
	Wood Processing	11,511,659	3,187,222	340	3,327,372
	Forestry	218,000	-	23	-
BSPs		1,139,078	-	106	-
	BSPs	1,139,078	-	106.41	-
Grand Total		51,354,263	26,439,008	2,353	18,827,377

The distribution of the total number of enterprises by sector is as follows: agriculture sector with 22 enterprises, construction sector with 18 enterprises, forestry and wood processing with 15 enterprises, tourism sector with 11 enterprises, ICT with 5 enterprises and recycling sector with 3 enterprises. One company that belongs to the textile sector, Kosovatex, has been added to the KPEP system during this quarter, in addition to the three new companies, one in recycling, one in wood processing, and one in the tourism sector. There are 16 business service providers in the client database of the Component Two. One new client was added to this sector during this quarter.

To date, 4,983 people were trained since the start of the project, of which 3,944 were males and 1,039 females. Below is given the number of people trained disaggregated by the type of the training for the LOP:

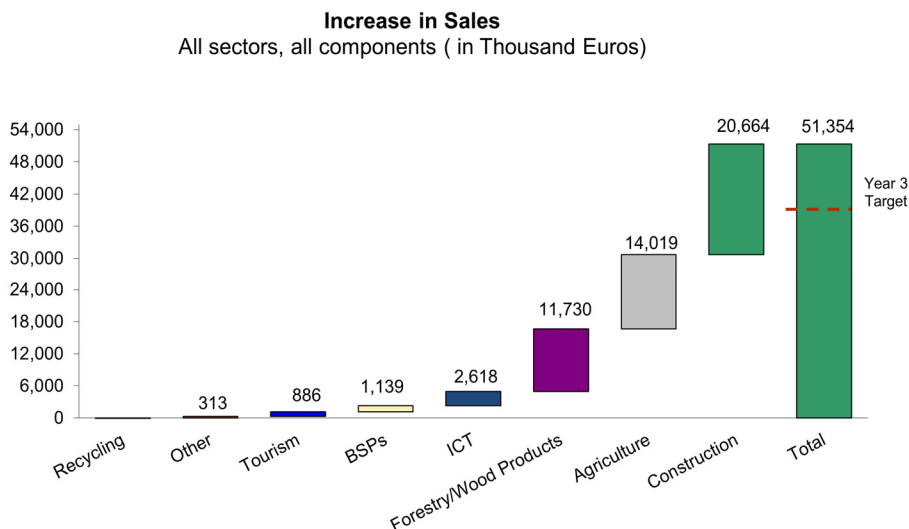
- 2,450 people participated in KPEP supported presentations.
- 1,345 attended trainings.
- 36 participated in the twinning partner training program.
- 133 participated in roundtables.
- 748 participated in different workshops.
- 224 participated in conferences organized or supported by KPEP.
- 7 individuals participated in study trips.
- 40 participated in B2B events organized or supported by KPEP.

During this quarter alone 209 people were trained, of which 181 were male and 28 female.

2. Sales

The total increase in sales reached €51.3 million, both in enterprises under Component One (agriculture, construction, forestry and wood products, ICT and tourism sector) and BSPs, under Component Two. KPEP has achieved a 38.3 percent growth in sales. This is a very positive development considering the global recession. The construction and agriculture sectors are the

main contributors to the sales growth.



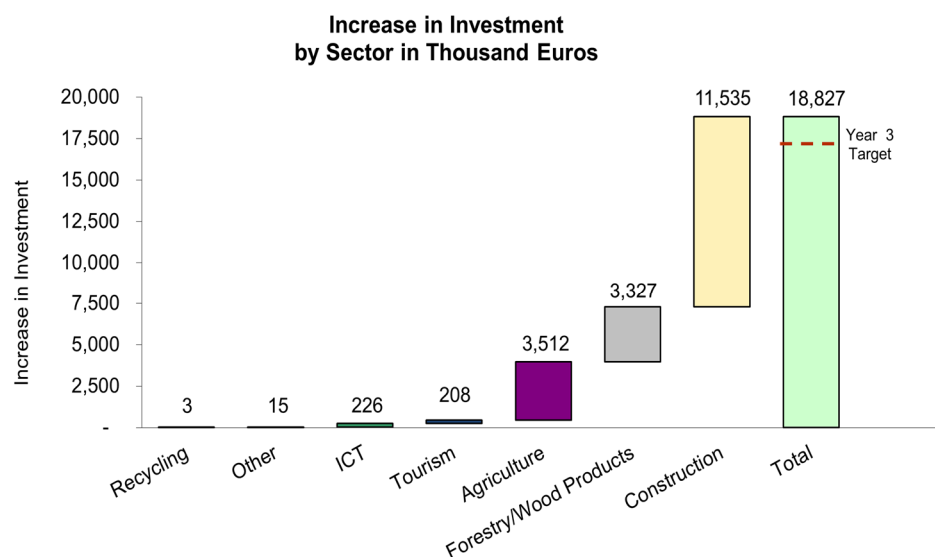
The main contributors to this increase are companies: Lesna (wood processing sector), Eurokos, Abi, Pestova, Devolli and Eurofood (agriculture sector), Lin project, Eskavatori and

Papenburg&Adriani

(construction sector), and Cactus (ICT sector). These companies are together making almost 74 percent of the total value of the increase in sales. The increase in sales for the LOP of each of these companies was higher than two million Euros. Other important contributors are: Bejta Commerce, Graniti and KAG Asphalt, each of them having more than one million Euros increase in sales.

3. Investment

The total value of investments reached €18.8 million, thus already exceeding the Year 3 target of €16 million. The construction sector continues to drive the investment growth among KPEP firms although its share to this growth dropped from 66 percent of the project's total reported increase in



investment to 61 percent. This is the result of redirecting the KPEP support from road construction companies to the companies in construction materials sub-sector. However, the investments made by these companies remained in the sector performance data.

Forestry and wood processing sector contributes to the increase in investment by 17 percent, while agriculture increased its share to 19 percent. On the list of top eight investing companies six belong to the construction sector (Eskavatori, Renelual Tahiri, Lin Projekt, Fitorja, Papenburg & Adriani and Graniti), while two are in the wood processing sector (Lesna and Tefik Çanga), all of them having more than one million Euros in investment each. In total, 59 companies out of 75 KPEP client enterprises in Component One, made investment since the KPEP project started. These companies mainly invested in new equipment. The total value of investments were made in the domestic market.

During this quarter alone, top investing companies are: dairy plant Rugove and wood processing company Tefik Çanga Design.

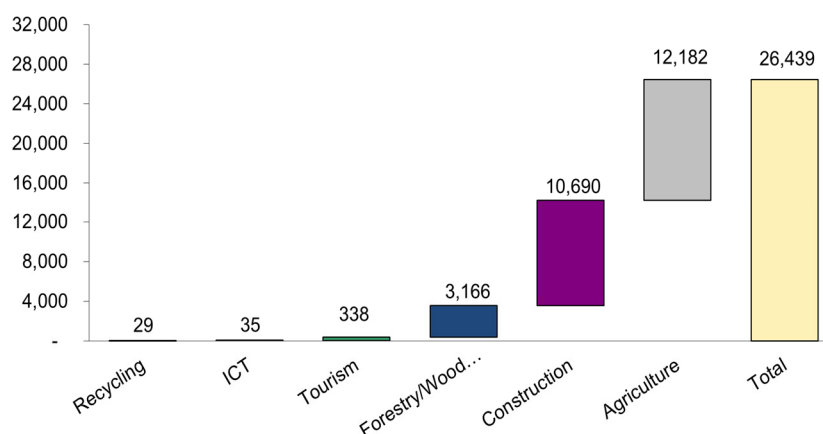
4. Exports

The increase in exports to date for the LOP is €26.4 million. The agriculture sector is the main contributor to the export growth, accounting for 46.1 percent of KPEP enterprises. The construction sector has contributed to this increase with 40.4 percent, and wood and processing sector with 12.0 percent. The share of other sectors is negligible.

During the last quarter, total value of exports of KPEP supported enterprises in all targeted sectors were 1.06 million Euros while imports were 3.73 million Euros. This

provides for an export/import coverage ratio of 28.3 percent for this quarter. The export/import coverage ratio for the LOP is 61.3 percent. During the LOP, exports €28,237,509 while imports were €46,064,761. The main exporting companies during this period are Eurokos, KAG Asphalt, Lesna and Pestova, all having exported more than €2 million over the LOP.

Increase in Exports
by Sector in Thousand Euros

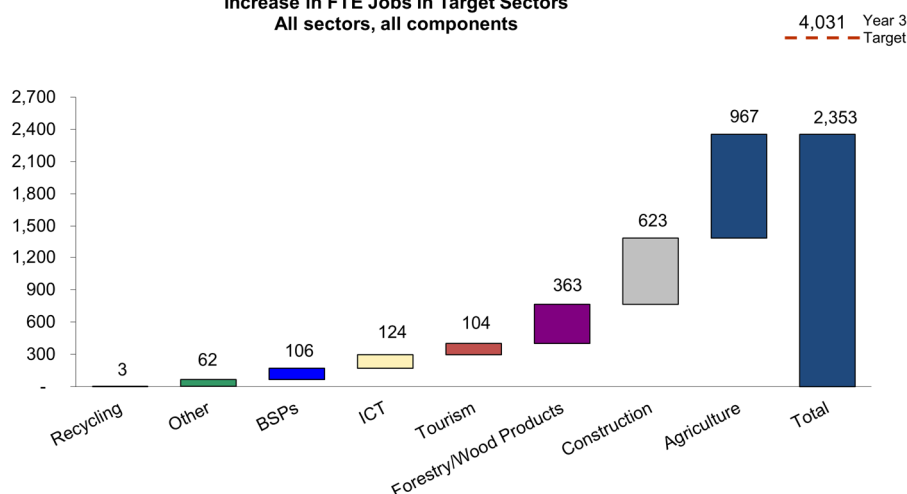


5. Full Time Jobs

The total LOP increase in FTE jobs is 2,353, of which 2,247 were created in enterprises in Component One and 106 in the business

service providers of Component Two. During the last quarter, 459 new FTE jobs were created in enterprises that operate under Component One sectors, and 29 new

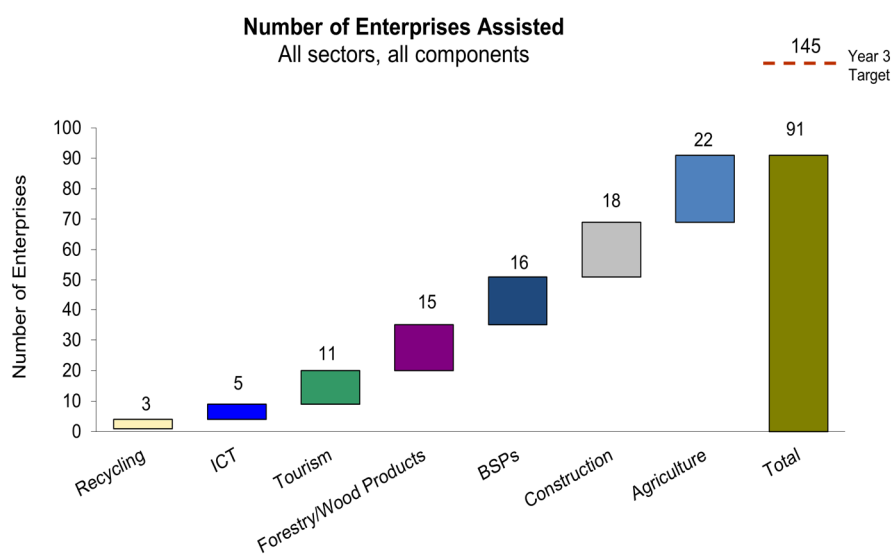
Increase in FTE Jobs in Target Sectors
All sectors, all components



FTE jobs in Component Two. The share of the agriculture sector to the LOP increase in FTE jobs is 43 percent, construction sector has 28 percent share, wood processing and forestry 16 percent, while other sectors have less than six percent share in the total increase. The main contributors to this increase are (still) the companies in the construction sector, Bejta Commerce, Eurokos, Lin Projekt and Eskavatori. Other contributors are Pestova, Elnor, Devolli, Agroprodukt Syne and Cactus. BSPs achieved an increase of 106 FTE jobs, a figure that is almost three times more than the LOP target of 36 FTE jobs.

6. Number of Enterprises Assisted

The KPEP client database includes 75 enterprises in Component One and 16 enterprises (BSPs)



in Component Two, as of the end of the second quarter of the year three. These are companies that KPEP has assisted and that have agreed to share their performance data with KPEP (The reach of KPEP in the private sector is much wider than this. KPEP's activities reach more than 550 companies). In this quarter, four new

companies were added during the last quarter, one in recycling, one in tourism, one in wood processing and one in textile sector. One company in the construction sector was dropped from the active list of KPEP clients. From the total number of 75 enterprises in the Component One, 22 enterprises belong to the agriculture sector, 18 are construction enterprises, and 15 enterprises are in the forestry and wood processing sector, five enterprises are in ICT, 11 enterprises belong to the tourism sector, and three to the recycling sector.

7. Transactional data

No data were reported during this quarter regarding specific transactions.

8. PBMS Methodology

The Performance Based Management System (PBMS) monitors progress against program targets, facilitates reporting of the results attributable to KPEP efforts and provides data for reporting to USAID. It identifies successful enterprise, sector and industry clients, interventions and consultants and allows the team to compare projected results to actual results on a monthly, quarterly, semi-annual and annual basis. The baseline and targets are set for all indicators for the life of the project (LOP).

- **Data collection**

The KPEP specialists worked with the client enterprises to establish baseline data. Initial baseline data is recorded for the period just prior to implementation of activities that contribute to achievement of results, enabling comparison when measuring progress toward a specific result or objective. The baseline provides a snapshot of a performance indicator as a point of reference.

For enterprises, baseline data includes jobs, sales, production, investments, foreign direct investment and partnerships. The KPEP specialists are responsible for data collection from enterprises. The PBMS Specialist reviewed the information received and performed quality control. After that, the PBMS specialist entered the data into the project's database. The reports produced from the access database and excel spreadsheets are used for inclusion in quarterly reports to USAID.

- **Quality of the data**

The sector specialists are responsible for the first-level data quality control. The quality checks have been made to ensure that data collected and included in the database are accurate and reliable. Every single transaction entered in the database was double checked for accuracy.

- **Data verification**

The PBMS specialist conducts site visits and interviews with representatives from the client enterprises and organizational partners to verify the results that have been reported. In addition to verification of the accuracy and consistency of the results reported, the PBMS specialist also will determine whether the results were caused by the KPEP intervention and thus attributable to the project.

- **Status of the Indicators**

The status of Project Indicators is set out in the Annex 1 entitled *Report on Indicators*. This Annex gives the status of all indicators from the PMP.

9. Attribution

The KPEP Attribution Process is a method for assigning results more specifically to KPEP interventions. In the past, KPEP (and KCBS before it) has captured the quarterly revenue, investment, and job data from our client partners and reported it exactly as it is received regardless of the level of assistance provided to that firm. We will continue to report data in this manner. The KPEP Attribution Process will help capture transaction level data and will assign a percentage of quarterly revenue that KPEP can reasonably be responsible for and accountable for. This process will also help calculate a Return on Investment for Component 1 work, enabling management to compare results versus cost across sectors. This exercise will add valuable insight into the effectiveness of our interventions in specific sectors and can inform our future investment decisions.

The steps are as follows:

1. Collect transactional data on an ongoing basis from both KPEP and non-KPEP firms.
2. Collect quarterly data from KPEP firms as usual.
3. Subtract transactional data from quarterly data for KPEP client firms.
4. Assign an attribution percentage (based on guidelines below) to the remaining client sales based on KPEP activities and support. This percentage should be assigned based on activities, regular formal evaluations by the clients as well as informal discussions with the client firms.
5. Meet as a team inclusive of USAID and outside perspective to debate and defend assigned percentages, come to consensus and consistency across sectors, and discuss problem areas (cases when sales were down relative to the baseline for example).
6. Report both gross numbers and attributable numbers to USAID.
7. Use attributable numbers to calculate rough ROI for internal management purposes.

Scoring: Sector specialists will assign a ranking for each company in each quarter based on what percentage of the firm's quarterly sales, investment or jobs created KPEP can reasonably take credit for. Scores will be assigned in quartiles 0, 25, 50, 75, or 100%.

Scoring Criteria	
0%	No support was given to the firm in this quarter (includes technical assistance, grants, training, or any activities listed above).
25%	1 medium level activity, or 1-2 low impact activities performed with the client firm having a result on sales, investment or jobs.
50%	1 to 2 high level impact activity or 3 or more medium level impact activities (or a combination of low, medium, and high level impact activities).
75%	3 or more high level impact activities (or a combination of activities that includes 2 or more high level and 3 or more medium level activities).
100%	An intensive combination of all levels of activities with a single firm. A 100% ranking should be reserved for only those firms who have received extensive support throughout the reporting period.

Scoring Guidelines: For client firms, list of generic activities with low, medium, and high level impact rankings with respect to sales, investment, and job creation. These activities are to be viewed as guidelines and Sector Specialists may describe other activities not categorized below in supporting the ranking they assign a client firm.

High Impact	Medium Impact	Low Impact
<ul style="list-style-type: none"> • Buyer meetings/introductions • Buyer – Seller negotiations • New product development • Investor materials/presentations • Internships • Agriculture aggregation • Transport and logistics • Other –describe 	<ul style="list-style-type: none"> • Marketing campaigns • Marketing support • Packaging and branding support • Market research • Advisory services • Study tours • Partnership facilitation • Storage facility construction • Management support • Training • Certification training • Standards preparation 	<ul style="list-style-type: none"> • Trade fairs • Conferences • Agriculture demonstration plots • Feasibility studies • National strategies • Export plans • Other – describe

Following are the results on the attribution regarding four main indicators: sales, jobs, exports and investment.

1. KPEP attribution on sales

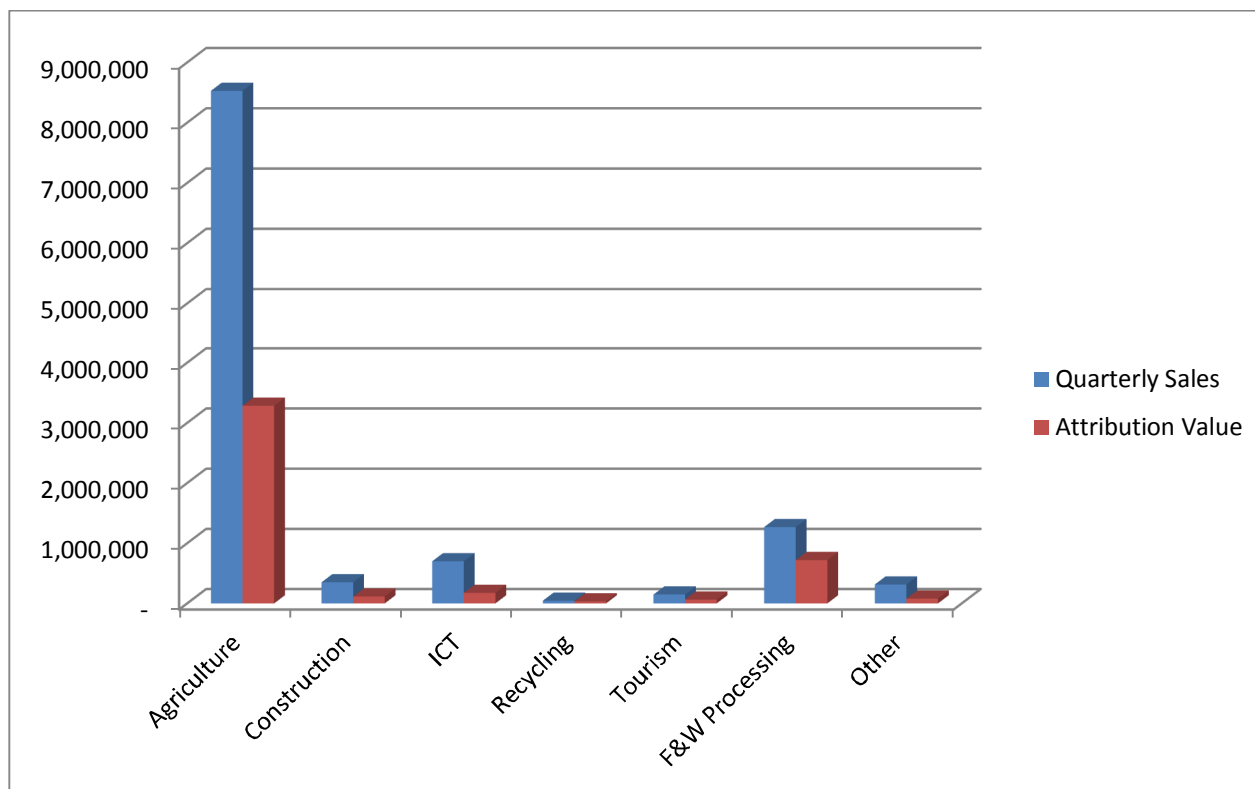
1.1. Total KPEP

Total Quarterly Sales KPEP Firms		11,352,250
Total KPEP Attributable Sales		4,467,662
Attribution % for the quarter		39.4%

1.2. By sub-sector

Sector	Sub-sector	Quarterly Sales	Attribution Value	% Attribution
Agriculture		8,528,307	3,284,699	38.5%
	Dairy	4,280,315	1,634,121	38.2%
	Fruits and vegetables	3,970,347	1,537,549	38.7%
	Non-wood forest products	195,170	71,793	36.8%
	Poultry meat processing	82,475	41,238	50.0%
Construction		350,986	113,156	32.2%
	Construction Materials	350,986	113,156	32.2%
	Road Construction	-	-	
ICT		699,750	174,938	25.0%
	ICT	699,750	174,938	25.0%
Recycling		45,147	33,860	75.0%
	Recycling	45,147	33,860	75.0%
Tourism		146,711	63,367	43.2%
	Tourism	146,711	63,367	43.2%
Forestry & Wood processing		1,267,906	719,281	56.7%
	Wood Processing	1,217,826	706,761	58.0%
	Forestry	50,080	12,520	25.0%
Other		313,443	78,361	25.0%
	Other	313,443	78,361	25.0%
Grand Total		11,352,250	4,467,662	39.4%

Of the total value of sales of €11,352,250, KPEP's attribution is €4,467,662 or 39.4% of the total amount of the quarterly sales of the KPEP clients.



2. KPEP attribution on exports

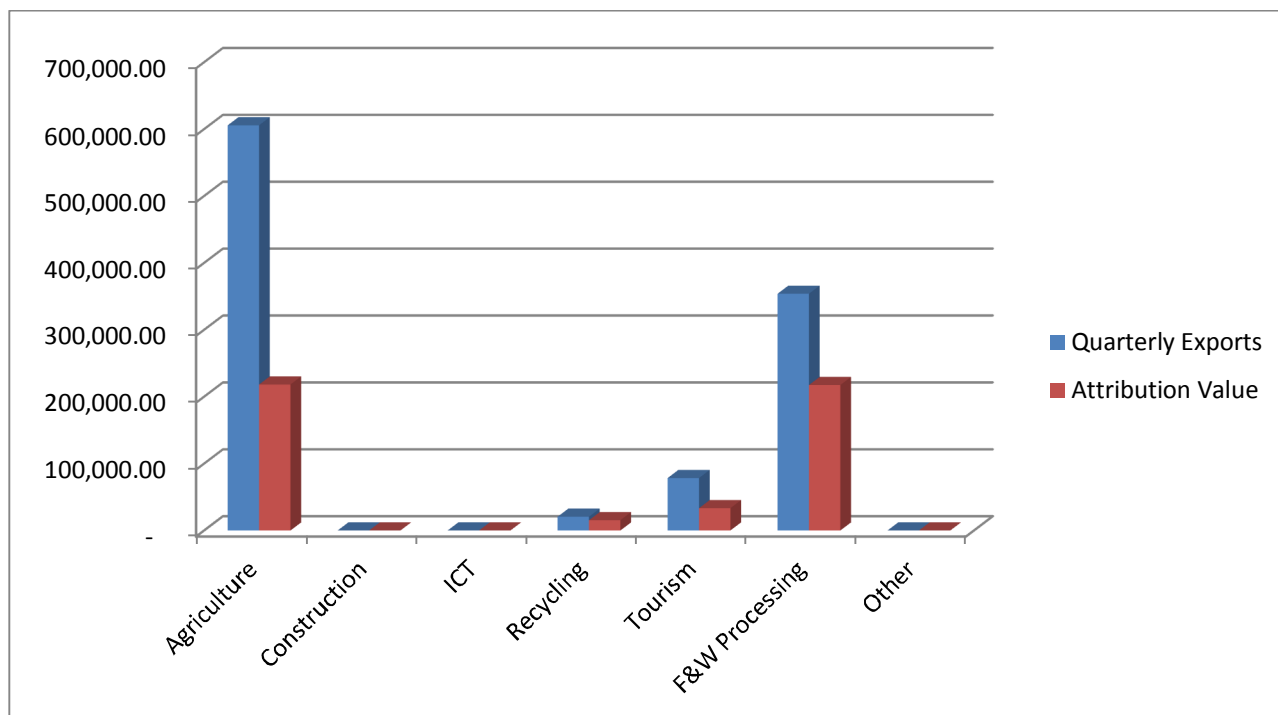
2.1. Total KPEP

Total Quarterly Exports KPEP Firms		1,058,306.00
Total KPEP Attributable Exports		484,303.50
Attribution % for the quarter		45.8%

2.2. By sub-sector

Sector	Sub-sector	Quarterly Exports	Attribution Value	% Attribution
Agriculture		605,655	218,210	36.0%
	Dairy	92,629	46,314	50.0%
	Fruits and vegetables	258,756	103,378	40.0%
	Non-wood forest products	254,270	68,518	26.9%
	Poultry meat processing	-	-	-
Construction		-	-	-
	Construction Materials	-	-	-
	Road Construction	-	-	-
ICT		-	-	-
	ICT	-	-	-
Recycling		20,522	15,391	75.0%
	Recycling	20,522	15,391	75.0%
Tourism		78,311	33,295	42.5%
	Tourism	78,311	33,295	42.5%
Forestry & Wood processing		353,818	217,407	61.4%
	Wood Processing	353,818	217,407	61.4%
	Forestry	-	-	-
Other		-	-	-
	Other	-	-	-
Grand Total		1,058,306	484,303	45.8%

Of the total value of exports of €1,058,306, KPEP's attribution is €484,303 or 45.8% of the total amount of the quarterly export sales of the KPEP clients.



3. KPEP attribution on investment

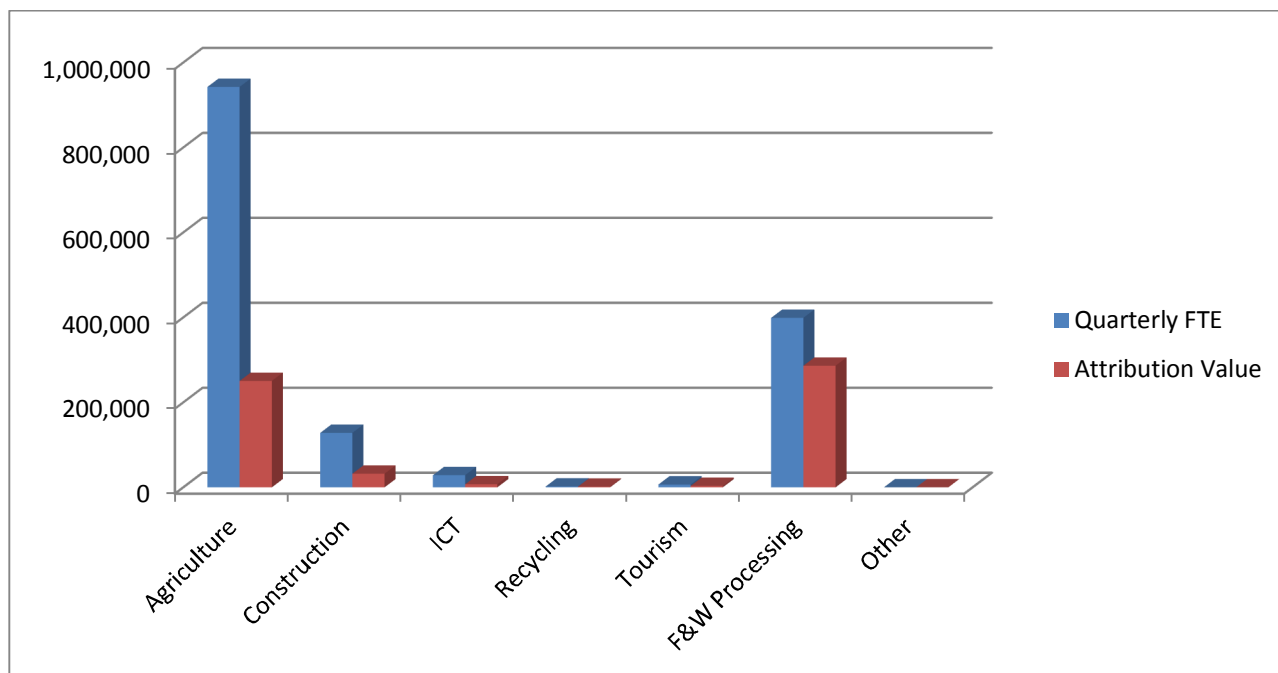
3.1. Total KPEP

Total Quarterly Investment KPEP Firms		1,506,782.00
Total KPEP Attributable Investment		580,677.50
Attribution % for the quarter		38.5%

3.2. By sub-sector

Sector	Sub-sector	Quarterly Investment	Attribution Value	% Attribution
Agriculture		942,539	250,495	26.6%
	Dairy	801,400	200,700	25.0%
	Fruits and vegetables	50,239	22,120	44.0%
	Non-wood forest products	90,900	27,675	30.4%
	Poultry meat processing	-	-	#DIV/0!
Construction		128,119	32,030	25.0%
	Construction Materials	128,119	32,030	25.0%
	Road Construction	-	-	
ICT		28,566	7,142	25.0%
	ICT	28,566	7,142	25.0%
Recycling		1,931	1,448	75.0%
	Recycling	1,931	1,448	75.0%
Tourism		6,627	3,314	50.0%
	Tourism	6,627	3,314	50.0%
Forestry & Wood processing		399,000	286,250	71.7%
	Wood Processing	399,000	286,250	71.7%
	Forestry	-	-	-
Other		-	-	-
	Other	-	-	-
Grand Total		1,506,782	580,678	38.5%

Of the total value of investments of €1,506,782, KPEP's attribution is €580,678 or 38.5% of the total amount of the quarterly investments of the KPEP clients.



4. KPEP attribution on employment

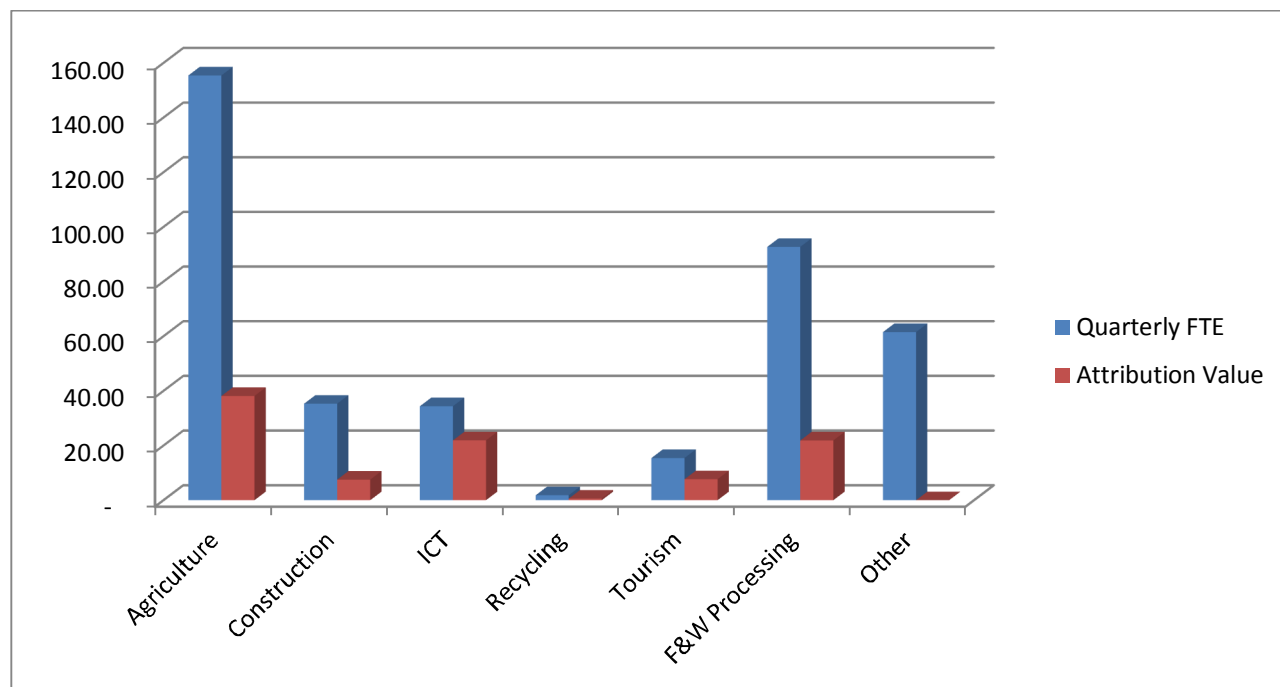
4.1. Total KPEP

Total Quarterly FTE KPEP Firms		396.47
Total KPEP Attributable FTE		97.63
Attribution % for the quarter		24.6%

4.2. By sub-sector

Sector	Sub-sector	Quarterly FTE	Attribution Value	% Attribution
Agriculture		155.40	38.13	24.5%
	Dairy	52.93	14.32	27.1%
	Fruits and vegetables	68.64	10.01	14.6%
	Non-wood forest products	19.33	6.56	33.9%
	Poultry meat processing	14.50	7.25	50.0%
Construction		35.30	7.53	21.3%
	Construction Materials	35.30	7.53	21.3%
	Road Construction	-	-	-
ICT		34.38	21.87	63.6%
	ICT	34.38	21.87	63.6%
Recycling		1.79	0.57	32.0%
	Recycling	1.79	0.57	32.0%
Tourism		15.42	7.67	49.7%
	Tourism	15.42	.67	49.7%
Forestry & Wood processing		92.67	21.86	23.6%
	Wood Processing	88.00	20.25	23.0%
	Forestry	4.67	1.61	34.4%
Other		61.50	-	0.0%
	Other	61.50	-	0.0%
Grand Total		396.47	97.63	24.6%

Of the total number of 396.47 FTE jobs created during this quarter, KPEP's attribution is 97.63 FTE jobs, or 24.6% of the total amount of the quarterly FTE jobs of the KPEP clients.



10. Multipliers

Using multipliers to estimate total economic impact or the employment impact of direct sales and growth of a particular industry is a common economic tool. There are numerous methodologies and academic studies used to develop, calculate and detail multipliers for particular sectors in specific economies. However, the process for developing a multiplier for specific sectors in Kosovo would be potentially costly and the data may not be available or accurate. Instead, we collected multipliers on KPEP sectors from a wide range of sources and extrapolated multipliers we could use on an anecdotal basis.

One important tool that is widely used to evaluate economic development impacts is the *economic impact analysis*. Economic impact analyses measure the potential impact of economic decisions by business, government, and consumers on an economy.

An economic impact analysis is based on the concept of the *multiplier*. The multiplier is the relationship between some change in an economy and the succeeding economic activity that occurs as a result of that change. Consider the location of a new automobile parts manufacturer.

Initial projections of the impact of the firm would likely include estimates of the number of new jobs and the income earned by the new workers. This is called the *direct effect*, which is an initial change in the economy.

But there are other effects as well. It is likely that the new plant will require inputs of goods and services from other local businesses. These purchases generate new jobs and income in those allied industries. These spinoff activities are referred to as *indirect effects*. In addition, the new workers in the parts plant and the employees in the supporting industries spend a portion of their income locally to meet household needs, and this spending creates new jobs and income. The jobs and spending created as a result of these activities are called the *induced effect*.

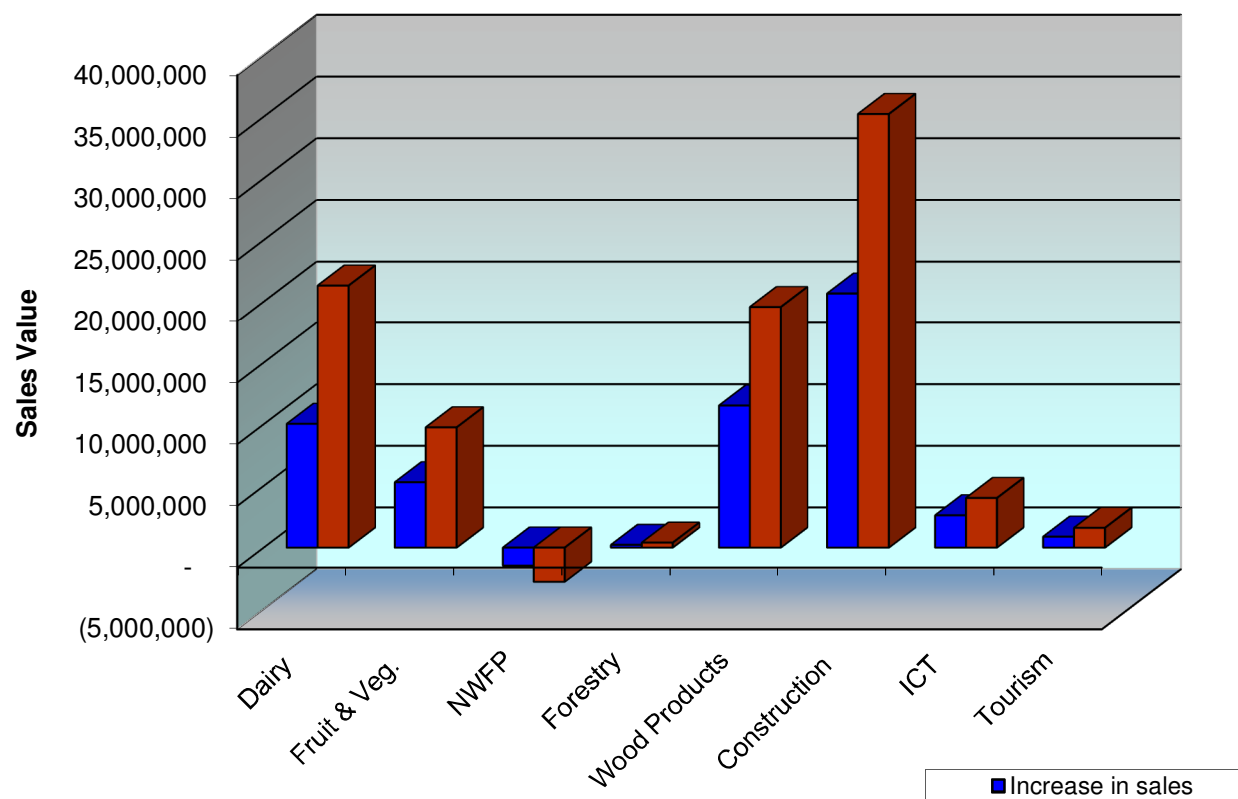
The sum of the direct, indirect, and induced effects is the *total effect*. The process of job creation and income generation continues so long as some portion of spending remains local. The multiplier is an estimate of how much additional economic activity will result from some new investment in an economy. "Multiplier" is an appropriate term, because the original investment is "multiplied" by the multiplier to obtain the total economic impact

KPEP developed the average multipliers for each KPEP sector. Minor sub-sectors, like metal processing and poultry meat processing are not included in the calculation.

Sector	Economic Impact	Employment
Dairy	2.13	1.84
Fruit and Vegetable	1.84	1.96
Non-Wood Forest Products	1.90	1.58
Forestry	1.84	1.89
Wood Products	1.70	1.66
Construction	1.70	1.84
ICT	1.54	1.57
Tourism	1.81	1.39

1. Economic Impact

Sector	Increase in sales	Economic Impact	Multiplier Effect
Dairy	10,028,216	2.13	21,309,959
Fruit & Veg.	5,295,200	1.84	9,743,168
NWFP	(1,456,687)	1.90	(2,767,705)
Forestry	218,000	1.84	401,120
Wood Products	11,511,659	1.70	19,569,819
Construction	20,663,934	1.70	35,217,248
ICT	2,618,169	1.54	4,018,889
Tourism	886,224	1.81	1,604,065
TOTAL	49,764,715		89,096,564

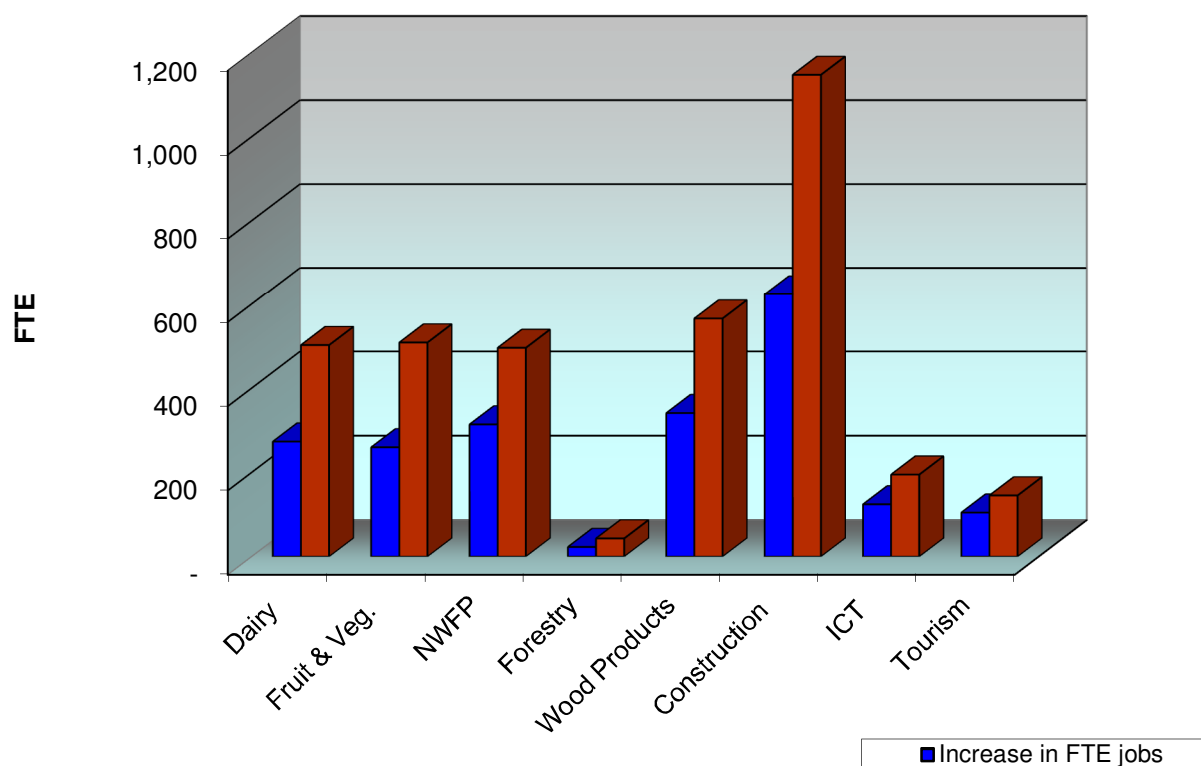


So, the multiplier effect for the total increase in sales for the LOP of €49,764,715 is €89,096,564. On average, for one-euro increase in sales, another 1.79 Euro has been generated all the way through the value chain of KPEP targeted sectors.

If we use these data and compare with the LOP target on sales, that has been set at €50 million increase, we have already exceeded this target, although we do not have multipliers for all sectors.

2. Employment

Sector	Increase in FTE jobs	Employment	Multiplier Effect
Dairy	272.63	1.84	501.64
Fruit & Veg.	259.07	1.96	507.78
NWFP	313.37	1.58	495.12
Forestry	22.70	1.89	42.90
Wood Products	340.31	1.66	564.91
Construction	623.32	1.84	1,146.91
ICT	123.81	1.57	194.38
Tourism	104.25	1.39	144.91
TOTAL	2,059.46		3,598.56



The multiplier effect for the total increase in employment for the LOP of 2,059.46 FTE jobs is 3,598.56 FTE jobs. In average, for one new FTE job, another 1.75 FTE jobs have been generated all the way through the value chain of KPEP targeted sectors.

If we use these data and compare with the LOP target on FTE jobs, that has been set at 2,500 new FTE jobs at the end of the Q2 of FY 2011, we have exceeded this target, although we do not have multipliers for all sectors.

Women

This quarter, KPEP supported a series of projects specific to women. A number of the agricultural sector associations we supported are women's organizations as described below.

The Workforce Development sector organized three workshops for women in business. We trained 40 women, provided them with the opportunity to network, and informed them about initiatives by international organizations to support business. We held the workshops in Prizren, Gjilan/Gjilane and Gjakova/Djakovica.

The Fruit and Vegetable sector worked with two women's organizations in the predominantly agricultural region of Krusha in Western Kosovo. Thus far, KPEP implemented the following activities in support to women:

- KPEP signed a €30,000 grant agreement for investment in vegetable processing machinery with the Grate Fermere (Women Farmers) association. The equipment will increase the productivity of pepper processing, a traditional business in the region.
- KPEP has approved a €30,000 grant for Krusha Widow Association, for machinery for pepper processing.
- The biggest cash for work project located in the North is implemented by two NGO's headed by women: Mundesia and Women's Business Association.

Value of projects implemented by women organizations	Women in internship programs	Women trained to date
204,657	122	1,093

Microenterprises

USAID's economic growth programs in Kosovo are aimed at value chain improvements through greater competitiveness of firms, and their products and services.

Microenterprises have been an important beneficiary of the USG assistance program. Sectors where competitiveness requires product standardization at the producer level, such as dairy programs, have significant results on microenterprises. Mission support has focused on assistance to sectors where a significant number of micro enterprises participate in the value chain, including organizations in agriculture, tourism, ICT and wood products. The mission also supported microenterprise development in addressing cross cutting issues in workforce development, business enabling environment, and business support services. Below is the list of some projects that were supported by KPEP and that had microenterprise component:

Project	Sector/Component
Pepper seedling plantation machine and management of demonstration plots for new varieties of Peppers	Agriculture
Implement White Bean Demonstration Plots	Agriculture
Installation of Pasteurizing production line for vegetable processing	Agriculture
Installation of yoghurt packaging technology	Agriculture
Installation of processed potato frosting technology	Agriculture
ICT Vendor Training and Certification Program	ICT
PMP Training and Certification Program	ICT
Workshop on E-Marketing	ICT
Entrepreneurship – Micro enterprise Training program	WFD
Online Marketing Services for Kosovo Tour Packages, Tourist Experiences and Products	ICT
Business Plan for Widows Association, Krusha e Madhe	Agriculture
Catalogue of Tourism Offers	Tourism
Green House as a Business	WFD
White Beans Demonstration Plots	Agriculture
Establishing Collecting and Processing point for NWFP in Boge/Rugove	Agriculture

Strengthening system of collection through assistance to Establishing a new processing and packaging facility for NWFP with HACCP requirements	Agriculture
Demonstration of new planting technologies (watermelon, melon, pumpkin, and cucumber)	Agriculture
Utilization of wood waste and biomass for production of briquettes	Wood Products
"Stay the weekend - Experience Peja" Tourism Street Fair 2010	Tourism
Wood Industry Job Fair	WFD
Reduce Illegal Logging	Forestry
Set up proper manufacturing operations and sales practices- developing marketing and promotional tools (web, catalogue and business cards) and participation in Tirana wood fair	Wood Products
IT Solutions for Pattern Production/3d Designing and Visualization Software	WFD
Meeting quality standards for export of domestic agricultural products (collection, sorting, classification, labeling and packing) by increasing quality of services at our collection center and greater relations with other centers in Kosovo	Agriculture
Non Wood Forest Products Processors HACCP Introduction and Certification	Agriculture
Poverty Assessment Tools Survey	All sectors
Fruit and Vegetable Collection Centers	Agriculture
Training and Internship Program for 100 jobseekers in the field of Accounting and Finance and their placement for the internship	WFD
Alternative feeding Regime	Tourism
Processing of Non Wood Forest Products	Agriculture
Installation of Green House Central Heating and Cold Chamber	Agriculture
Purchase and Installation of Furnaces and Installation of Heating: Greenhouse Area	Agriculture
Promotional CDs for Kosovo Tourism Destination	Tourism
Training and internship program for 300 job seekers in the field of accounting and finance and their placement for the internship	WFD
Purchase and Installation of Central Green House Heating	Agriculture

Strengthening System of collection through assistance in being a small scale equipment or cleaning of blueberries, Rose hips and other NWFP products	Agriculture
Production of cardboard crates for fruits and vegetables	Wood Products

Minorities

The specific minority and multiethnic activities initiatives include the following:

- KPEP awarded a \$31,700 grant to Aves, a broiler company in Zvecane/Zvecan. We will distribute the funds next quarter, after the environmental clean bill is in place.
- KPEP supported a Bosniak-owned dairy plant to establish cottage cheese production. The grant is approved for disbursement subject to minority fund availability.
- KPEP has identified 300 ha of stand forest that requires silviculture treatment (cleaning and thinning). The area is located in the predominantly Serbian area of Leposavic/Leposaviq municipality. We will implement this activity in partnership with local institutions. The cleaning and thinning process will be performed during the next two quarters and will engage 1,000 workers (financed in part by the project) for a period of six months. Local communities will use the wood collected for heating, with the remainder to be turned into biomass.
- The Leposavic/Leposaviq based farming company Antonije received a €19,000 grant for investment in a green house project. The grant was approved last quarter.
- The Eminel Company, which is located in the predominantly Turkish Mamusa municipality, signed a grant agreement that will support its carton box production business for agricultural products packing.
- The Štrpce/Shtrpce based Farmers Association MVM received a € 16,000 grant to purchase young raspberry plants.
- Total number of minorities trained up to date is 264.

Number of people trained	Male	Female	Minority
4,983	3,944	1,039	264

Trade Capacity Building and Facilitation

In Quarter 2 of Year 3, the Project continued to work toward trade capacity building and facilitation.

In close cooperation with other donor projects, KPEP has been working on legislative reforms, export increases and foreign direct investment. We have analyzed unfair practices of regional customs and have addressed them with the GoK. Kosovo diplomats have been trained to lobby for and promote Kosovo products in the countries and regions where they are stationed. As a result, two contingencies of 80 thousand liters of *Stonecastle* wine from Rahovec were exported to the U.S.

Additional trade capacity building work includes a number of sector related activities that seek direct trade facilitation. Support continues with many Kosovo industries in facilitating exports to the region and the EU. We are also working to more actively participate in regional and international trade shows to develop contacts and to strengthen our possibilities for cooperation.

Modern quality standards remain a significant focus of KPEP assistance, as an important step to improve quality and prepare Kosovo products for export. This quarter, KPEP has continued to assist Hazard Analysis Critical Control Points (HACCP) certification. To date, 17 companies, entities, and producers have begun preparations for HACCP certification, and two have extended their organic certification for another year.

- Three dairies - Kabi, Magic Ice and Rugovd - began working toward HACCP certification process based on guidance provided by KPEP.
- KPEP finalized pre-HACCP layout advice for nine companies: Fitimi, Grate Farmere, Vokrri, and Rizona, Widow Association, Bashkimi, Liria, Fruti, and Hosa Fresh.
- Accredited companies for HACCP certification – MD and Sigma – are implementing the process of HACCP certification for five firms eligible to enter this process. The companies undertaking this procedure are APS, Besiana, Cooperativa Rogova, Scardus, and Agro-Peti. KPEP initially assisted these firms for the HACCP certification process, with individual grants of €5,000, with the possibility of additional funding (where necessary).
- Two KPEP clients - APS and HitFlores - have extended their organic certification for another year. This step was taken because organic certification has proved highly beneficial in accessing valuable European markets.

Forest certification

KPEP has continued to offer extensive assistance on the forest certification process in order to increase the competitiveness of Kosovo's wood products. The standards development group application for accreditation of the Forest Stewardship Council standard for Kosovo is currently under review at the FSC International Centre Policy and Standard unit. KPEP recently received assurance from the policy manager at FSC's International Centre that the SDG application was under review.

Construction

KPEP continued working on trade capacity building in the construction sector and assisted construction materials producers to improve product quality and to obtain certifications. At both the enterprise and industry level, KPEP supported manufacturers' business observation visits and offered consulting advice, an investment cost sharing grants, researched industry trends and helped government institutions understand the main problems facing the construction materials industry.

ICT

With respect to ICT, KPEP promoted the Kosovo BPO sector as an attractive investment destination to local and international investors by engaging several IT and BPO companies in Kosovo that are interested in investing in this sector. With KPEP support, two Kosovo firms with strong business ties to Germany are expected to start pilot BPO operations with a German client.

KPEP continued working on promoting the Kosovo BPO, by presenting this sector to the CEO of one of the largest call centers in Sofia, Bulgaria. Furthermore, KPEP successfully worked to increase the awareness of the BPO investment potential in Kosovo and gained support from government stakeholders such as IPAK and the Kosovo Ministry of Trade and Industry, Kosovo ICT Association. As a result of KPEP's promotion of the sector, other donors, including the Community Development Fund, have committed to investing in this sector.

With KPEP assistance on equity investment, Cactus, a Kosovo-based ICT firm, received equity investment from the European Bank for Reconstruction and Development (EBRD). This was the

first time an investment bank has invested in a Kosovo ICT firm. This investment will be used to modernize the company and fund new investment projects that will grow Cactus throughout 2011 and 2012, and help its expansion into Albania and Macedonia. KPEP assisted Cactus to initiate a partnership discussion with a Bulgarian ICT company that has a substantial presence in the region. Beyond expansion to countries in the region, the partnership will allow Cactus to provide a distribution opportunity for its software products in the Bulgarian market.

With respect to FDI, KPEP organized meetings with top executives, including leading Indian BPO firms such as Wipro, Aegis, AXA Business Services and NASSCOM, India's premier trade body and the chamber of commerce of the IT-BPO industries representatives. KPEP Deputy Chief of Party and an international STTA from Silicon Valley conducted the meetings.

Support Dairy Policy Development

With KPEP support, five dairy technologists from five different dairy plants attended the dairy technology training program at Minnesota dairies and the University of Wisconsin this quarter. The aim of this training program was to gain the needed knowledge to upgrade their skills and to produce cheeses and fruit yogurts that will help them substitute imported dairy products and increase sales at the dairy companies where they are engaged. The program offered the group an ideal opportunity to work with University of Wisconsin cheese technologists and students on the cheese making process. Participants learned how to make Gouda and Colby cheese with seasonings, including wine and apple flavors. This will enable participants to diversify their product lines.

The demand for dairy products produced by KPEP clients is increasing, and for the last year and a half we have witnessed an € 8.3 million increase in sales.

With respect to poultry, the Konsoni broiler slaughterhouse has increased its processing capacity from 1500 to 2200 birds a day to meet the steadily growing demand for fresh broilers. Konsoni broiler was able to achieve this by following the recommendations outlined in KPEP's marketing strategy.

Non Wood Forest Products (NWFP)

KPEP's efforts to assist the NWFP sector in Kosovo resulted in five foreign companies visiting two local companies before the start of the NWFP season, to contract quantities of current varieties, as well as to introduce six new varieties of cultivated herbs.

Four companies from Kosovo and representatives of USAID/KPEP, Intercooperation, and GIZ visited the BioFach Fair in Nuremberg, Germany. The companies actively participated in this fair, which resulted in sales of 300 tons by HitFlores (a participating company from Kosovo), establishing new contracts, and extending and expanding current contracts with international European companies, including Sonnentor, and BioNorica.

AgroProdukt –Syne (APS), one of Kosovo's most prominent NWFP companies signed an initial €50,000 contract with Germany's Velda to supply wild leaf and cultivated herbs. The size of the contract will increase in the future. The company has also signed a €10,000 contract with Austria's Sonnentor, for the supply of cultivated herbs.

KPEP contacted twelve different trading chestnut companies in Germany and Switzerland to inform them about Kosovo's organic chestnut resources and the possibility of business linkages. KPEP continued to research western EU countries, and to seek opportunities among possible buyers for chestnut commodities in bulk (unpeeled). In the meantime, considering that market demand in EU is specific to peeled chestnut, we conducted some research for affordable machinery to peel chestnut in country. We reached an agreement for the export of 50MT of chestnuts between APS and a buyer from the German Diaspora. The load will be exported at the end of the season and will be packed in nettings.

KPEP is focusing its efforts on adding value to the commodities through innovative packing, as opposed to the previous method of selling in bulk. A good example is Fungo FF, which presented new packaging for wild collected and dried mushrooms to domestic buyers and the local gastronomy sector. A similar packaging model will also be introduced to the Italian export market.

Wood Processing

Development of new products for export was one KPEP's major activities during this quarter. KPEP received enquiries for six new wood products; offers are being prepared from four KPEP

client companies; contracts have been concluded for two new products, samples have been produced, the order was made, and the first delivery of goods has been completed. With the help of STTA William Vernon, Elnor, a company that specializes in wooden chairs and tables, established export contracts with OSSO Contract/Ireland to develop and export chairs and tabletops.

The Fireside chair and Queen Anne chair samples developed in the previous period by Ahikos, as well as traditional three leg stools produced by Aring, were delivered to several possible buyers in UK as samples. The same buyer, OSSO Contract/Ireland requested new product samples from Ahikos and Tefik Canga Design. Due to problems that arose from sourcing flame resistant fabric and foam, we are still in the process of preparing offers and samples.

Three wood processing companies (Lesna, Gacaferi and Tefik Canga Design Group) have exhibited their products at the traditional furniture fair Mebel in Skopje, Macedonia. Due to increased interest for exhibited products, all three companies are in negotiations to create a distribution network for their products to the Macedonian market.

KPEP visited IMOB 2011, the seventh in a Turkish series of trade fairs dedicated to the furniture industry, in Istanbul, Turkey, with 400 exhibitors present. The goal of this visit was to research new trends and overall trade trends in the furniture market in the region. Several furniture manufacturers from Kosovo participated in the fair.

On behalf of AWPk, KPEP worked on an opportunity for cooperation with the Association of Turkish Furniture Manufacturers (MOSDER), which gathered 35 of the most eminent Turkish furniture manufacturers. AWPk and KPEP will follow up to further define activities that would appeal to AWPk and MOSDER.

KPEP visited the Ambiente Fair, one of world's most prominent trade fairs for consumer goods. KPEP met with representatives of the Swiss Import Promotion Program (SIPPO) to identify opportunities for cooperation, and to research new market trends on furniture and interior design (please see attached trip report).

Fruit and Vegetable

During this period, KPEP continued its cross - sector assistance to fruit and vegetable producers. The agriculture specialist, BEE and BSS are working with farmers associations as they work to transform themselves into farmers' cooperatives. As opposed to associations, cooperatives have the opportunity to enter into sales agreements and generate income.

The demand for Las Pallmas seedlings has tripled in comparison to the 2010 season. We anticipate much more demand following the implementation of the green house project, which we postponed until autumn, due to farmers' interest in cost share.

With KPEP support, Kosovo worked with a Dutch company to finalize the first phase of preparations for an ex mushroom facility in Joshanica/Klina and to secure an €800,000 investment for mushroom cultivation in May 2011.

KPEP continued supporting preparations for a compost production facility in Klina. The initial process of identifying firms is complete and in Q3, we anticipate an investment of more than €1 million to support new mushroom production.

KPEP continued to facilitate meetings between the Elkos group and KPEP clients to prepare a plantation plan for vegetable cultivation that will be delivered to the Kosovo Central Pack House in Xerxe. The pack house is owned by Elkos and will be operational by July 2011. Elkos and the Perdrini Association have already confirmed a delivery supply of 4800Mt of vegetables.

The Edona/Hosa Fresh vegetable processing line is in process of manufacturing €45,000 in goods, which provide full time employment to 60 individuals. The line will be built in April and will be operational by the end of May 2011. KPEP supported Edona/Hosa Fresh to establish a vegetable collection center with a €35,000 grant. The cooling chamber is ready for operation.

KPEP awarded, delivered and installed a pasteurizer that improves vegetable processing capacities to the Ask Foods vegetable processing line in Gjilan/Gnjilane, which will have a particularly impact on exports of processed peppers.

In an effort to create linkages between Kosovo producers and the international market, KPEP visited the Berlin Fruit Logistic Fair with 12 clients in partnership with the Intercooperation HPK

project. A KPEP representative met with the Shalamultimarche fruit and vegetable trading company in Geneva, Switzerland. KPEP received confirmation for 200MT in watermelon export from Kosovo to Switzerland for the 2011 season.

KPEP will continue to assist trade capacity building and facilitation throughout the life of the Project. The assistance will cover all issues specific to KPEP clients and will expand based on demand. KPEP will continue its cooperation with other donor projects and the GoK, as well as establish new cooperation with relevant institutions in an effort to establish a comprehensive and unified approach on trade related issues.

Strategic Activities Fund (SAF)

Outreach: KPEP continued to organize pre-bid meetings, where organizations interested in submitting a proposal are given the chance to learn more about Requests for Proposals (RFPs) and SAF procedural requirements.

KPEP also issued Requests for Proposal (RFP) for the Short-term Employment Generation Activity – phase 2 in North Kosovo. We received a proposal from the Women’s Business Association (WBA) NGO, which is part of a multiethnic consortium that includes the NGO Mundesia. The objective of this assignment was to continue engaging young people in litter collection efforts and improving the environmental conditions along the Ibar River. As a result, 204 young people of various national backgrounds received employment.

SAF Review Committee: SAF organized five SAF review committee meetings this reporting period. Applicant interest increased slightly in comparison with the previous reporting period. KPEP received 51 concept papers compared to 39 in the previous quarter. Of these, we approved seven, requested further information from four, rejected ten and postponed 30 from North Kosovo.

Requests for Proposals: During this reporting period KPEP issued two Requests for Proposals and one Request for Quotations. Though we advertised the RFP on the KPEP website, we only sent the RFQ to some companies. We issued three subcontracts and one grant agreement.

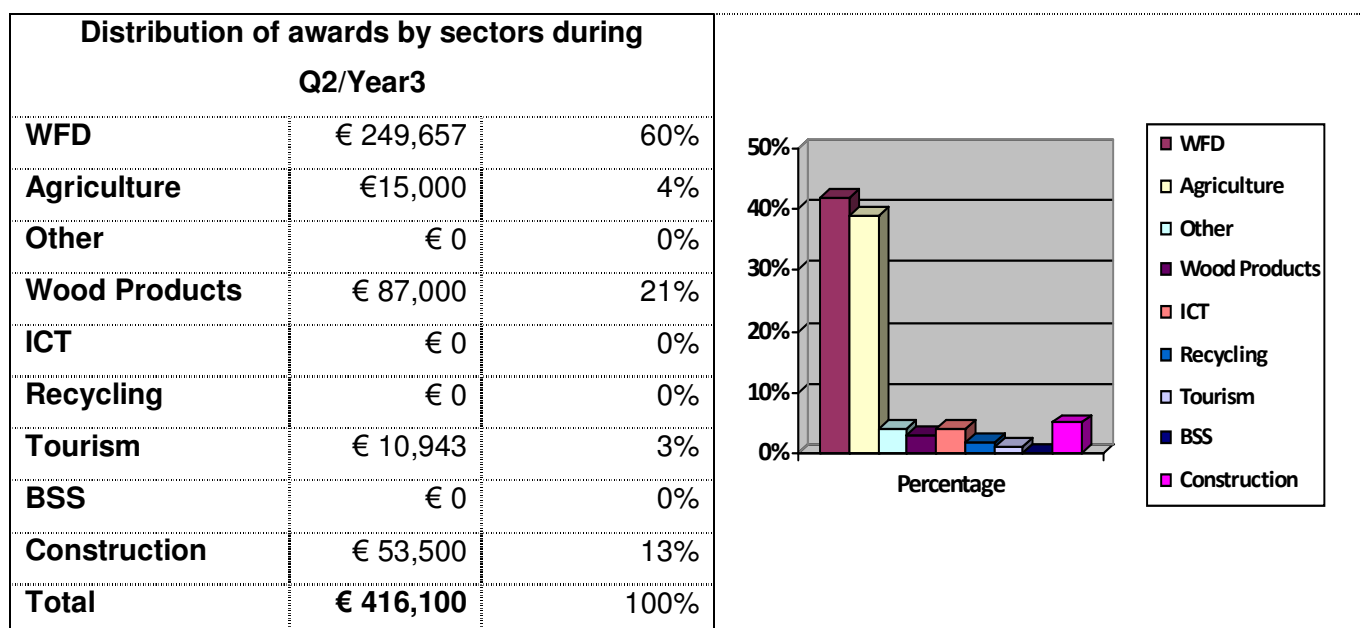
This quarter, we awarded three subcontracts valued at €3,543 (\$4,971) and six grant agreements valued at €192,900 (\$265,579). Moreover, we awarded two grants in North Kosovo valued at €219,657 (\$297,595). The total value of subcontracts and grants awarded this quarter was €416,100 (\$568,146).

The cumulative value of KPEP subcontracts and grants awarded this reporting period is as follows:

	Distribution by types of award	%
Grants	€192,900	46%
Sub-contracts	€ 3,543	1%
Grants-North Kosovo	€ 219,657	53%
Total	€ 416,100	100%

Grants and subcontracts awarded comprised the following KPEP approved sectors: WFD (60%), Agriculture (4%), Wood Products (21%), ICT (0%), Recycling (0%), Tourism (3%), BSS (0%), Construction, (13%) and other 0%.

The cumulative value of the KPEP subcontracts and grants by sectors is as follows:



Fixed price subcontracts were awarded to the following companies:

Fixed price subcontracts were awarded to the following companies						Type of ER Checklist		
No.	Awardees	Short description of the project	Sector	Enterprise level	Total in EUR	Cat. Exclusion	Neg. Determination	Pos. Determination
1	CACTTUS	Equipping the Tourist Information Center Rahovec/Orahovac	TS	Non-Micro	€ 788	X		
2	BEHA	Equipping the Tourist Information Center Rahovec/Orahovac	TS	Micro	€1,490	X		
3	Drenica SHPK	Tourism Signposting in Rahovec/Orahovac	TS	Micro	€1,265	X		
Total					€ 3,543			

We awarded grants to the following organizations:

Grants awarded						Type of ER Checklist		
	Awardees	Short description of the project	Sector	Enterprise level	Total in EUR	Cat. Exclusion	Neg. Determination	Pos. Determination
1	Brickos	Building a new tunnel kiln at an old brick production unit	CS	Non-Micro	50,000		X	
2	Association of Wood Processors of Kosovo (AWPK)	Supporting AWPK membership visit to key wood processing event of the year	WP	Micro	72,000	X		
3	Road Construction Association of Kosovo (RCAK)	Road Industry Magazine	CS	Micro	3,500	X		

4	Gacaferi Mobilje	Development of new kitchen professional catalogue - detailed product blueprint catalogue for sales agents	WP	Non-Micro	15,000	X		
5	Kosovoguide.com	Promotional CDs for Kosovo Tourism Destination	TS	Micro	7,400	X		
6	Association for Finance and Accounting Services (AFAS)	Training and internship program for 300 job seekers in accounting and finance; and subsequent placement in an internship	WFD	Micro	45,000	X		
Total					192,900			

Grants in North Kosovo were awarded to the following organizations:

Grants awarded in North Kosovo						Type of ER Checklist		
	Awardees	Short description of the project	Sector	Enterprise level	Total in EUR	Categ. Exclusion	Neg. Determination	Pos. Determination
1	Naja	Purchase and installation of furnaces and heating installation: Greenhouse Area	AS	Micro	15,000		X	
2	Women Business Association - WBA	Short Term Employment Generation Activity, phase II	WFD	Non-Micro	204,657	X		
Total					219,657			

We awarded 35% of our grants to micro-enterprises and 65% to non micro-enterprises during this reporting quarter.

Distribution of Awards by Type of Enterprises		
Enterprise	% of Total	Euros
Micro-enterprise	35%	€ 145,655
Non micro-enterprise	65%	€ 270,445
Total	100%	€ 416,100

Cash for Work and Business Support Activities in Northern Kosovo

This quarter, KPEP continued to support specific activities in the four Northern Kosovo municipalities of Zubin Potok, Mitrovica North, Zveqan/Zvecan and Leposavic/Leposaviq. We supported grant-making activities to small businesses; we are seeking opportunities expand our activities in this area. This quarter, we received 31 new concept papers from 27 Serb companies, three Albanian companies and one Bosnian company.

We completed the first phase of Ibar River Clean-Up Cash for Work program, which provided employment to 177 individuals. Participants cleaned the Ibar/Iber riverbank for a total of 10,620 working days.

The second phase of the project started March 15 and employed 204 individuals. The group consisted of mainly young people and constituted all ethnicities, a majority of who were Serbs. The groups also included ten supervisors. The three-month program focuses on the north bank of the Ibar River and provides 60 days of employment. This phase of the program will comprise at least 12,000 days, total workdays and will generate a gross cash income of at least euro 150,000. This activity is taking place across the four municipalities of Mitrovica, Zubin Potok, Zveqan/Zvecan and Leposavic/Leposaviq.

Participants receive a gross daily wage of 12 Euros gross from which they pay taxes to Kosovo Government.

The cleanup includes collecting litter from the riverbank and ensuring the area is more amenable to recreational activities. Target cleanup areas include points established during Phase 1 and along parts of the river now visible by a drop in water levels. We anticipate work will take place at 18 points along the river during Phase 2.

Activities for this Quarter:

- Antonije (greenhouse) is complete.

- Green House Naja is awaiting equipment.
- Green As Promet is awaiting equipment.

Grants awarded in North Kosovo						Type of ER Checklist		
	Awardees	Short description of the project	Sector	Enterprise level	Total in EUR	Categ. Exclusion	Neg. Determination	Pos. Determination
1	Naja	Purchase and Installation of Furnaces and Installation of Heating: Greenhouse Area	AS	Micro Enterprise	15,000		X	
2	Women Business Association - WBA	Short Term Employment Generation Activity, phase II	WFD	Non-Micro Enterprise Level	204,657	X		
Total					219,657			

Project Management Unit (PMU)

PMU is an integral part of the team's communications, leadership and technical delivery, working collaboratively with the field, Booz Allen headquarters and USAID. At Booz Allen, PMU provides backstopping programmatic support and ensures that the firm's lessons learned, experience and corporate values are properly integrated and disseminated throughout the project team.

PMU has served as a liaison between the project field team and our project subcontractors and has initiated and completed the various modifications necessary to field both independent consultants and subcontractor staff. This has included the preparation of statements of work (SOWs) and budgets for those team members. PMU has also processed and completed all deployment and mobilization documentation and has conducted appropriate due diligence for all candidates. PMU has offered support in all aspects of the mobilization, from arranging contract terms through final invoicing.

This quarter, PMU supported short-term technical specialists, including wood processing (William Veronon), Tourism (Elmar Kunz), and Road Construction (various instructors from the Texas Transportation Institute). PMU mobilization processes included arranging contract agreements, processing of staffing approval authorizations when necessary, processing of the mobilization paperwork and support in invoicing. PMU also processed documentation for one new long-term CCN, the Communications Specialist.

PMU also supported and coordinated, from the Booz Allen side, Modification 6 to the Task Order, which was fully executed in January 2011. PMU has worked with Booz Allen's internal systems to best account for revenue awarded in Euros and paid directly in Kosovo from USAID Kosovo to the KPEP project accounts. PMU has collaborated with corporate Finance and Contracts departments to ensure that funding and invoicing procedures for Modification 6 funds are correctly established.

PMU has prepared and submitted accrual reports to USAID on a quarterly basis. The unit has reviewed and reconciled Operational Expense Reports, working closely with field staff to make adjustments and corrections where necessary. Due to a change in Booz Allen internal finance procedures, Invoices 28 and 30 were both significantly larger than average and contained multiple months' worth of expenses. PMU responded to all queries regarding these invoices and initiated new documentation that will be included in each invoice moving forward.

PMU alerted USAID on two occasions of 75% expenditure levels of obligated funds. PMU acknowledges that the obligation is in process and project work will not need to be halted temporarily in May 2011.

PMU expedited a modification for Land O'Lakes for the implementation of the dairy study tour, and prepared the HeviCert subcontract language and budget to be signed in Q3. PMU also negotiated with IESC regarding their subcontract and fielding volunteers to advise sectors and cross-cutting areas.

PMU had a change in management at the end of Quarter 2 due to changing responsibilities in Booz Allen's home office. The Project Manager who has led PMU for most of the KPEP POP returned from her work on other Booz Allen projects, and a new highly-experienced Deputy Project Manager was assigned to KPEP.

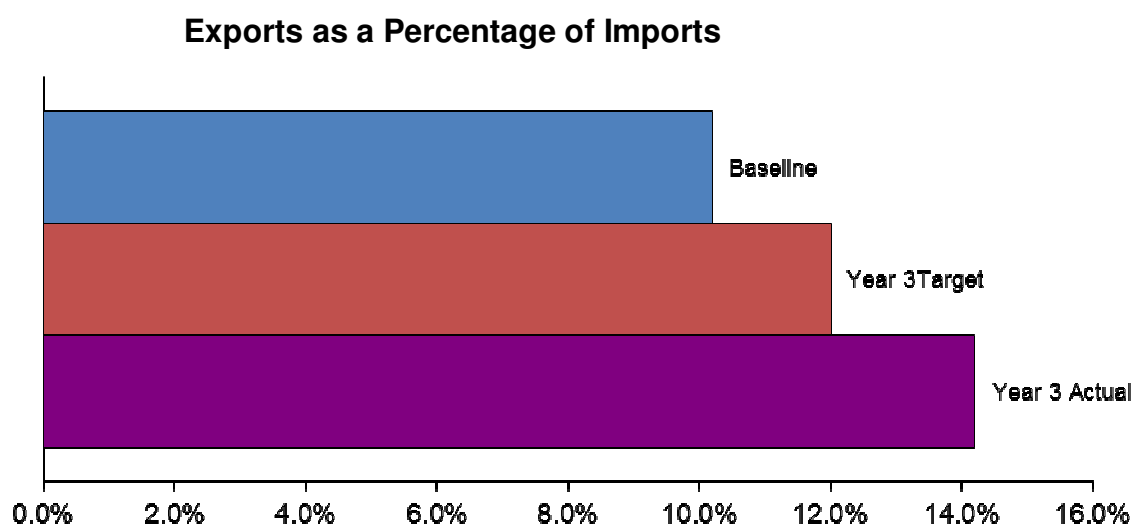
Annex 1. Report on Indicators

IR.1.3 (1) Accelerated Growth of Private Sector

Indicator: Exports as a Percentage of Imports – Kosovo Wide

Definition of the indicator: The total value of exports divided by the total value of imports, by sector.

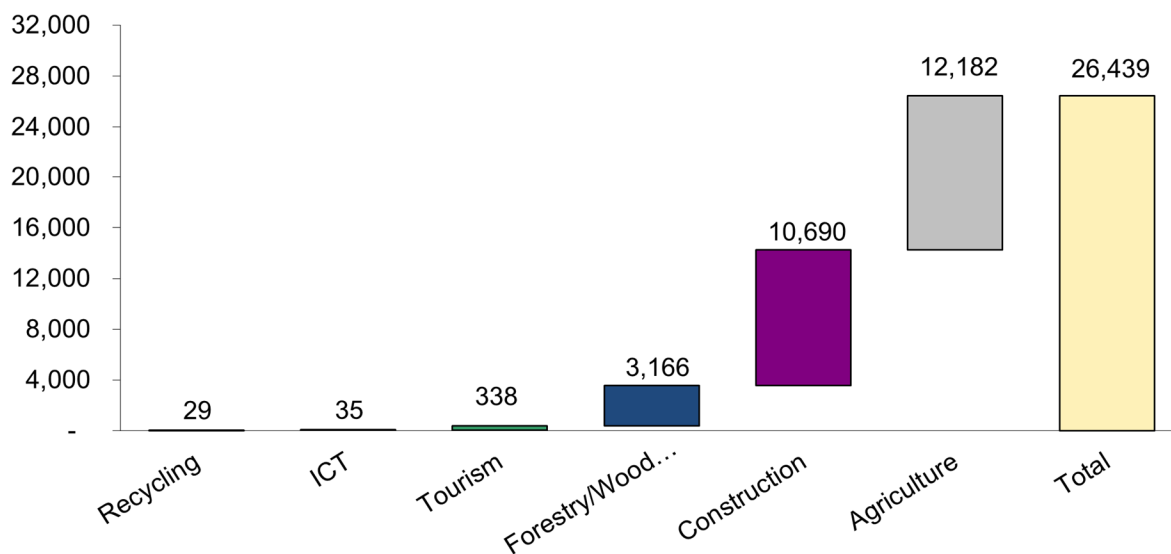
Data Source: Data is received from the Statistical Office of Kosovo (SOK).



Annual Results: The total value of exports divided by the total value of imports. This report contains the data from October 2010 until January 2011. The data for February and March 2011 are not published yet. Value of exports for this period was €102.58 million, while imports were at the amount of €724.54 million, which represents 14.16 percent exports/imports coverage. During CY 2010 Kosovo exported goods valued at €294.03 million Euros, and imported €2,139.53 million Euros, which provides for annual exports/imports coverage of 13.74%. This was the best performance of the foreign trade of Kosovo' post-conflict economy.

The data collected from KPEP client enterprises indicate that exports to date were €28,237,509 while imports were €46,064,761. This provides for a coverage ratio of 61.3%. Comparing to the baseline exports data of KPEP clients there was an increase of €26.4 million for the LOP. The graph below shows the increase in exports by KPEP targeted sectors.

Increase in Exports by Sector in Thousand Euros



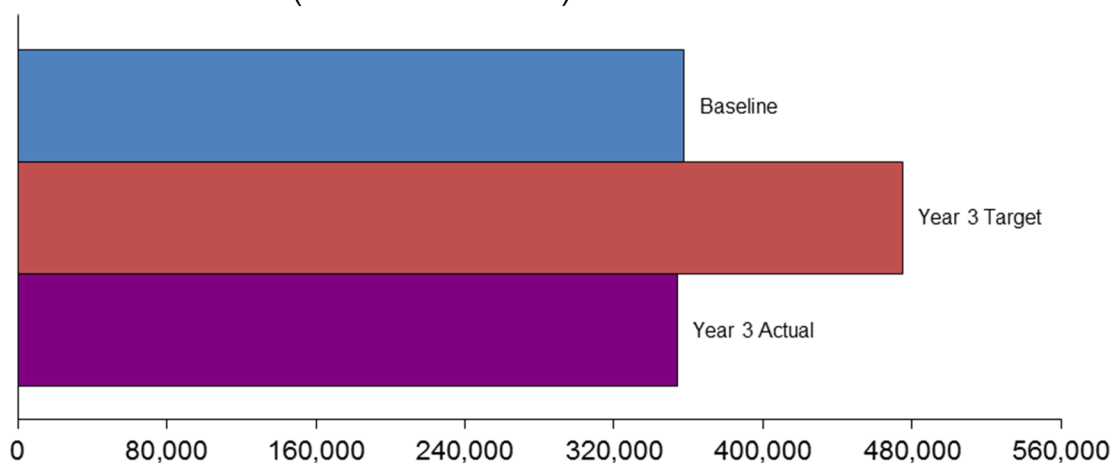
IR.1.3 (2) Accelerated Growth of Private Sector

Indicator: Foreign Direct Investment – Kosovo Wide

Definition of the indicator: Value of foreign private investment. Enterprise investment is defined as spending related to operational capital, technology, land, and infrastructure.

Data Source: Baseline data was received from Central Bank of the Republic of Kosovo.

Foreign Direct Investment (in thousand Euros)



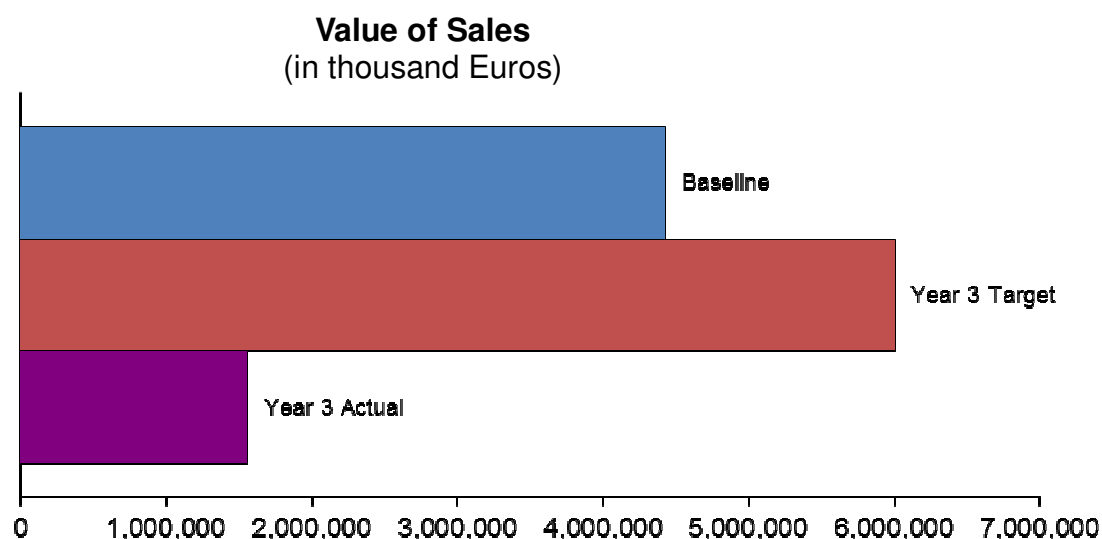
Annual Results: This indicator is reported annually.

IR.1.3 (3) Accelerated Growth of Private Sector

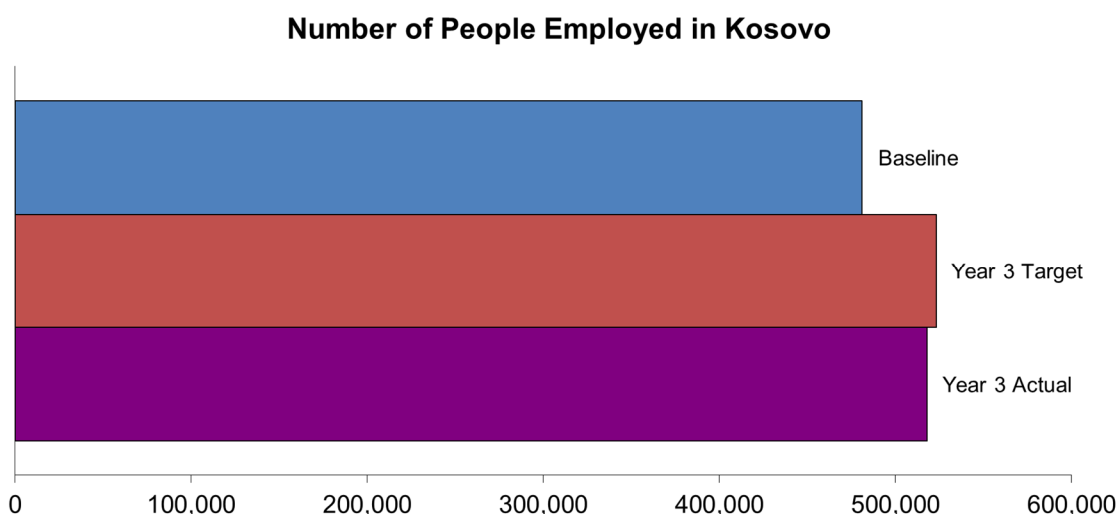
Indicator: Value of sales, by sector – Kosovo Wide

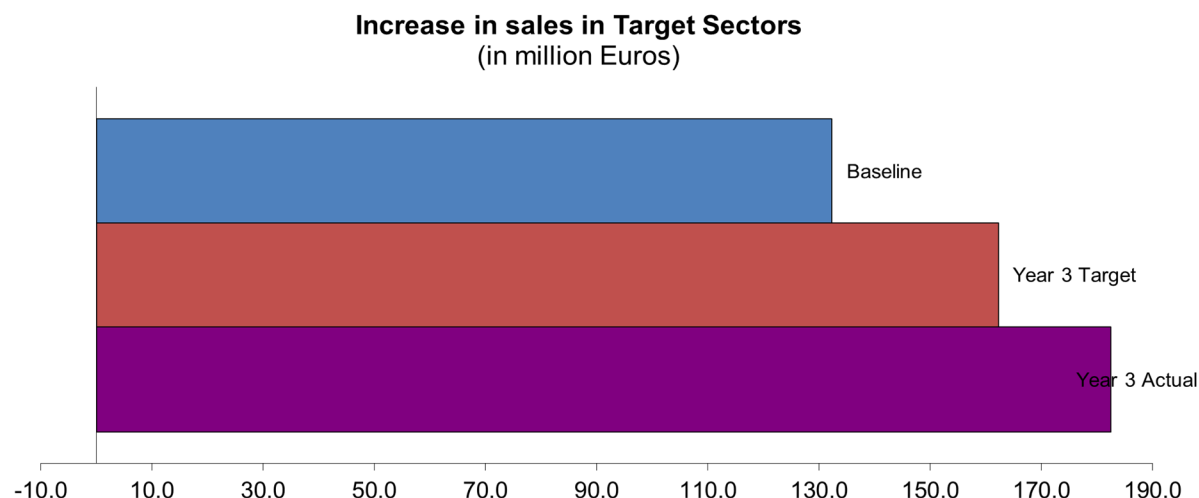
Definition of the indicator: Value of goods and services sold during the year measured as gross business sales.

Data Source: The data for this indicator has been collected from the Tax Administration of Kosovo.

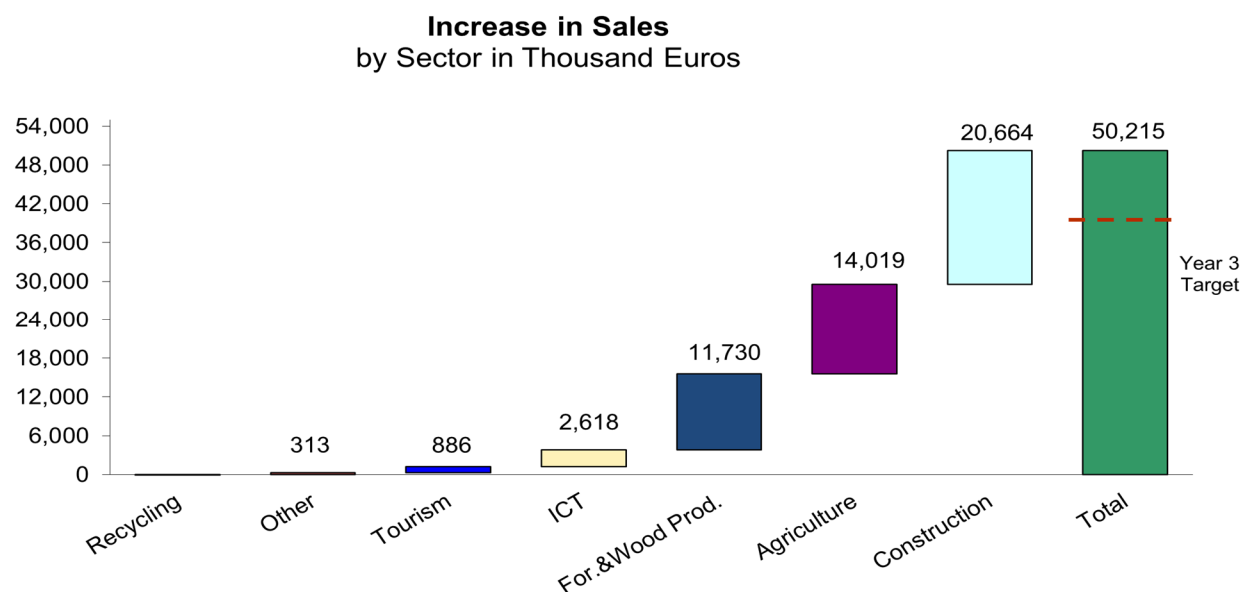


Annual Results. The baseline includes the data for the period January-December 2008. KPEP has collected the data for the period October 2010-March 2011. The cumulative data for this period is at €1,100,220 million. This figure represents the sales of all enterprises in Kosovo. Tax Administration of Kosovo categorizes enterprises in Kosovo into different categories: by size, in small and large enterprises, and by legal status, in individual businesses, partnerships and corporations.

IR.1.3 (4) Accelerated Growth of Private Sector**Indicator: Number of people employed, by sector – Kosovo Wide***Definition of the indicator:* Number of people employed, disaggregated by sector.*Data Source:* The baseline data for this indicator was collected from the Macroeconomic Department of MEF. The quarterly data is collected from the Department for Labor and Employment (DLE) of Ministry of Labor and Social Welfare (MLSW).*Annual Results.* This indicator is reported annually.**IR.1.3.1 (1) Increased Competitiveness of Key Sectors****Indicator: Increase in Sales in Target Sectors***Definition of the indicator:* Value of goods and services sold during the year is measured as gross business sales. It is an aggregate of all business sales related to the sector over a given period. This is measured for enterprises that receive KPEP support directly, through SAF or from specific transactions supported by KPEP.*Data Source:* Data received from sector specialists.



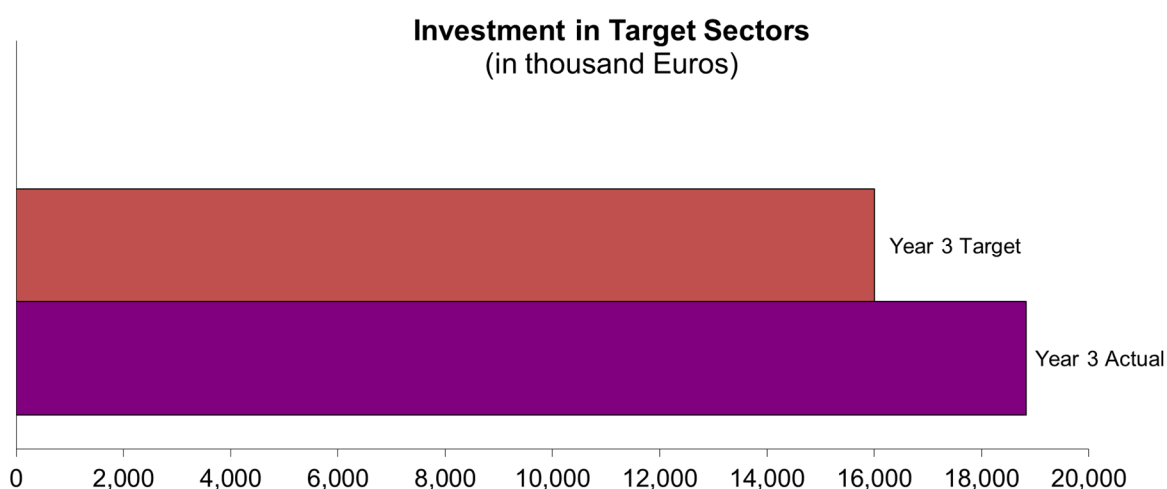
Annual Results. The annualized baseline value of sales is €132,316,729, which represents the baseline sales data for 75 companies. The cumulative target for Q2 of the Year 3 is an increase of sales of €30,000,000. Cumulative increase to date is €50,215,186, which means that KPEP already exceeded not only the Year 3 target, but also the LOP target of €50,000,000. The main contributors to the LOP increase are construction, agriculture, and forestry and wood processing sectors, as it is shown in the graph below:



IR.1.3.1 (2) Increased Competitiveness of Key Sectors**Indicator: Increase in investments in target sectors**

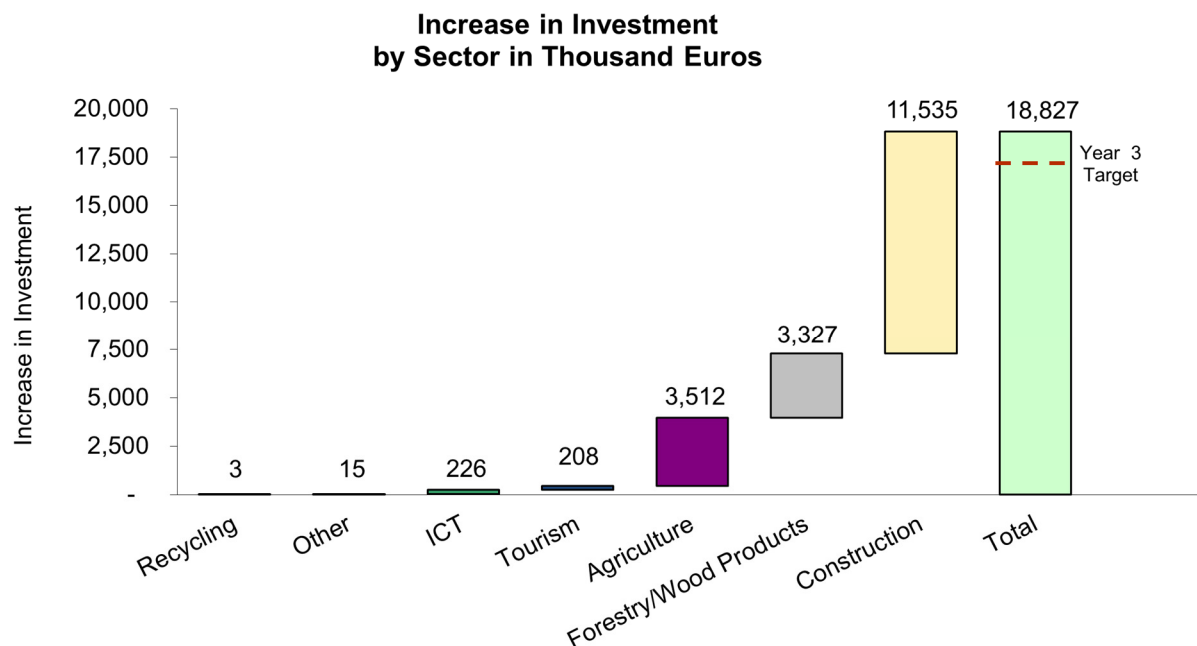
Definition of the indicator: Value of capital investments disaggregated by target enterprise, micro enterprise and by sector.

Data Source: Data received from sector specialists.



Annual Results. The cumulative value of investments to date is €18,827,377. Since the baseline figure was set at zero, the total value of investments in fact represents the total increase in investments. The cumulative target for Year 3 is an increase in investments of €16,000,000, the target that is already exceeded.

The main contributor to the LOP increase is still the construction sector, followed by forestry and wood processing and agriculture sector.



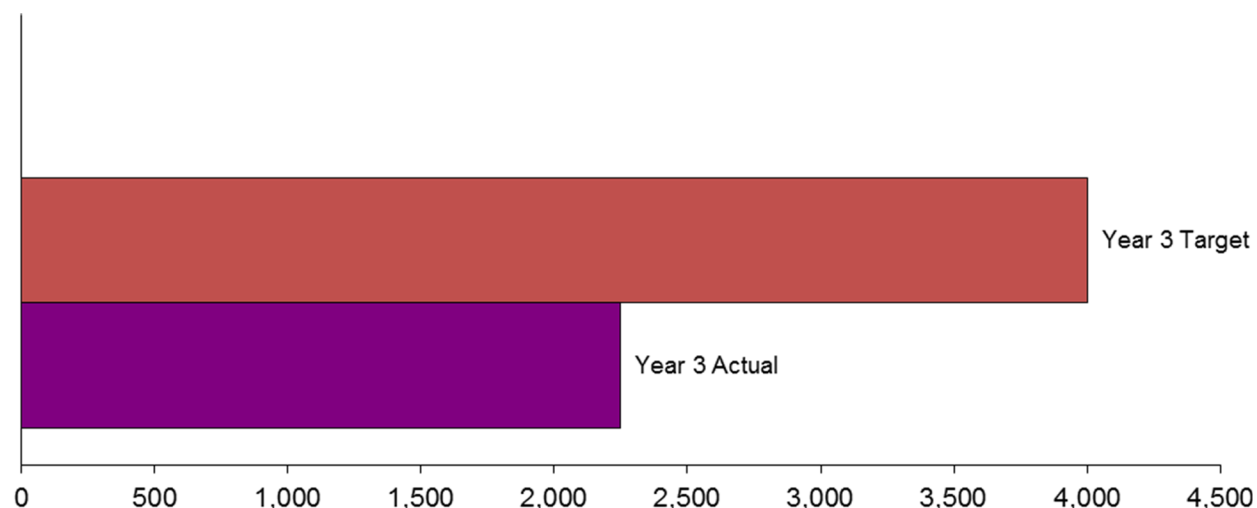
IR.1.3.1 (3) Increased Competitiveness of Key Sectors

Indicator: Increase in jobs created in target sectors

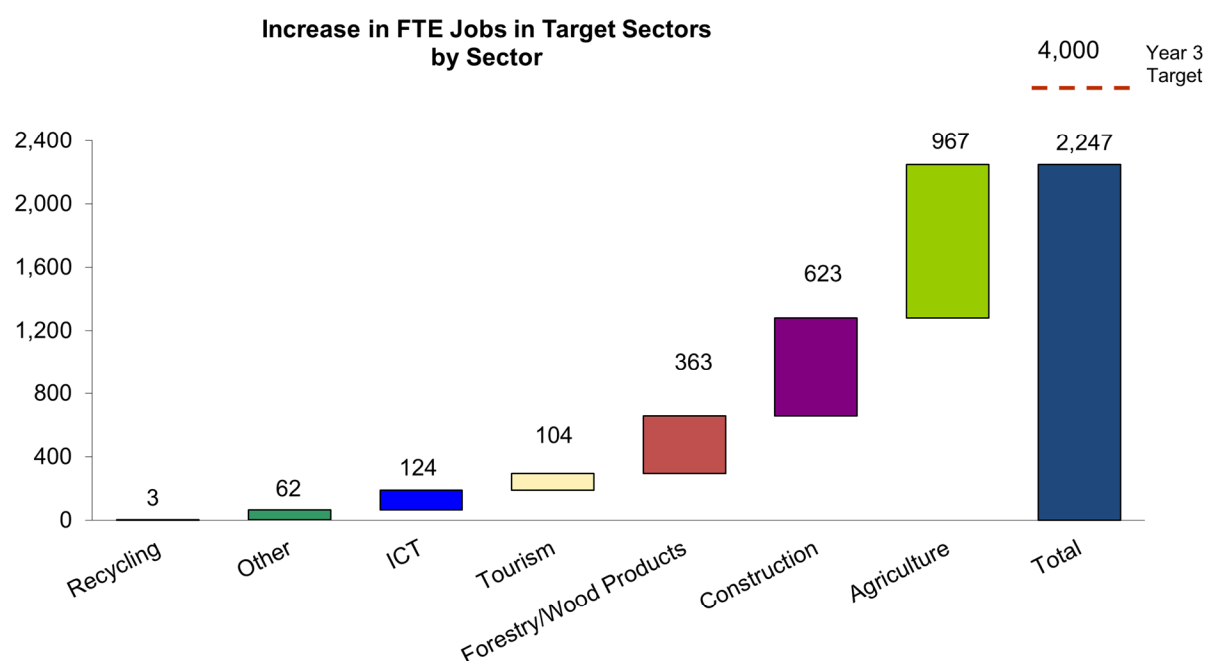
Definition of the indicator: Number of jobs created, disaggregated by target enterprise micro enterprises, and by sector, in terms of full-time equivalent jobs in target enterprises. Person days of employment (part-time employment) are converted to annual full-time equivalent -FTE jobs using 225 days of labor per year.

Data Source: Data received from sector specialists.

Increase in FTE Jobs in Target Sectors



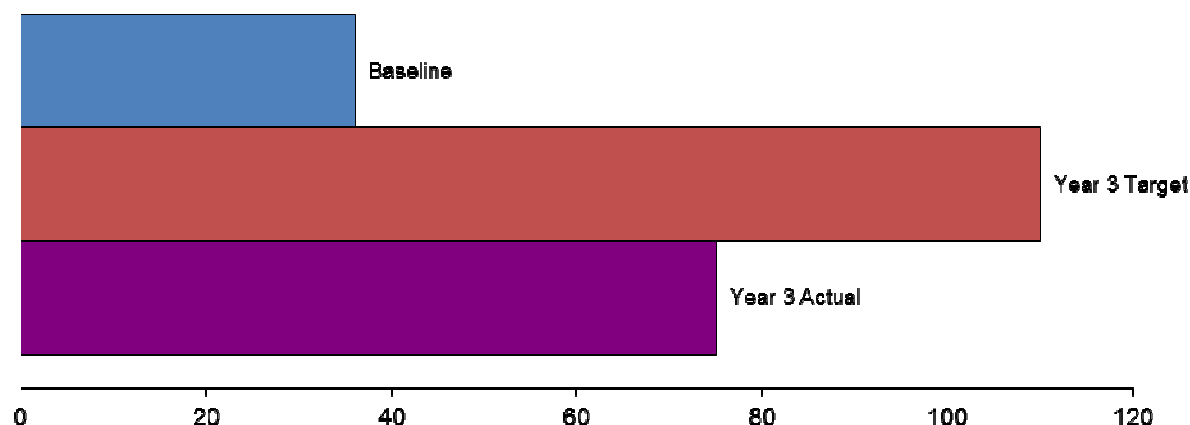
Annual Results. The cumulative target for the Q2 of the Year 3 is an increase of FTE jobs by 3,000. The cumulative increase of FTE jobs at KPEP client enterprises to date in Component One is 2,247 FTE jobs, which is below the Year 3 target. While KPEP is below its job creation target, the project has been able double the increase in full time jobs comparing to the baseline. The multiplier effect for the total increase in employment for the LOP is almost 3,600 FTE jobs, although multipliers were not calculated for all sectors. Below is provided the structure of the LOP increase in FTE jobs by sector. The main contributors to this increase are agriculture and construction sector, while the Wood products sector steadily increases its share to the overall FTE jobs increase.



IR.1.3.1 (4) Increased Competitiveness of Key Sectors**Indicator: Number of enterprises assisted in target sectors**

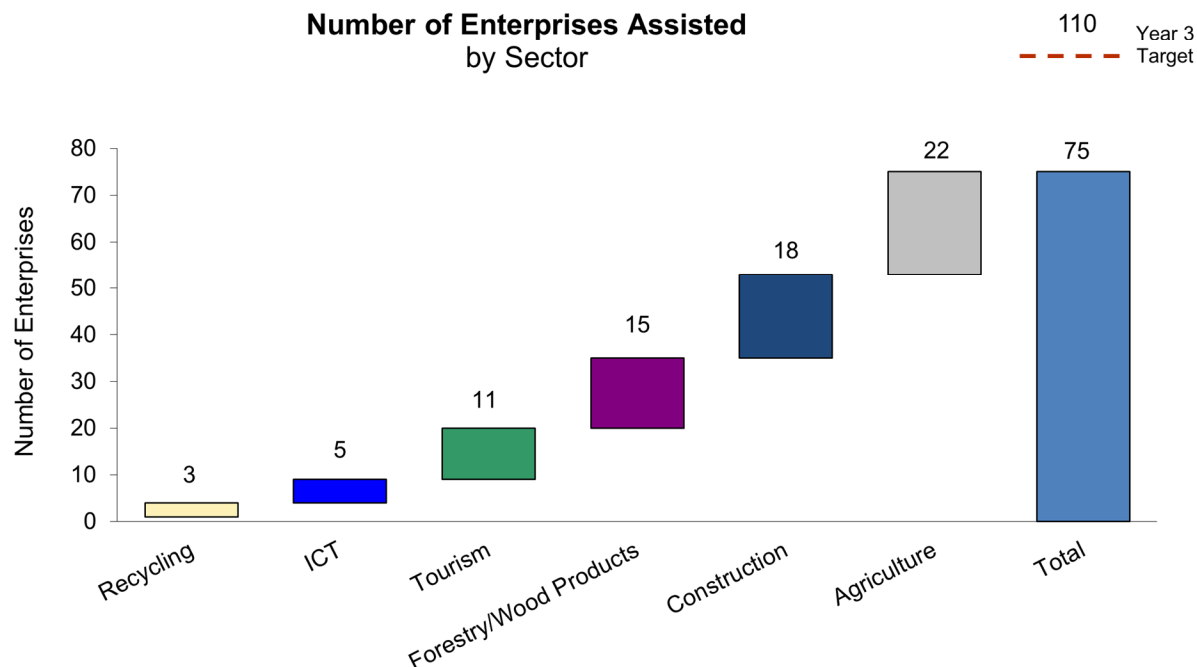
Definition of the indicator: Number of enterprises assisted directly by the project, disaggregated by micro enterprise.

Data Source: Data is received from sector specialists.

Number of Enterprises Assisted in Target Sectors

Annual Results. To date, there are 75 direct KPEP enterprises. These companies have signed agreement of cooperation with KPEP and receive continuous support from KPEP. In return, these companies provide KPEP with their quarterly data on their key performance indicators. The cumulative target number for Year 3 is set to 110 enterprises. During this quarter, four new companies were added to the PBMS system. One company was dropped as inactive client. The reach of KPEP in the private sector is much wider than this. KPEP's activities reach more than 550 companies.

Below is provided the structure of direct KPEP client enterprises by sector.

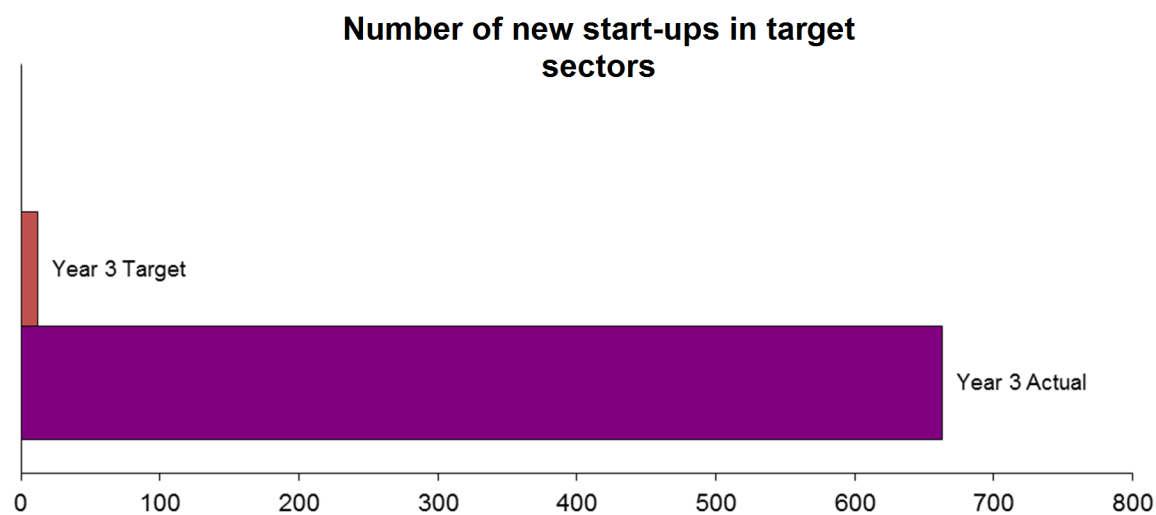


IR.1.3.1 (5) Increased Competitiveness of Key Sectors

Indicator: Number of new start-ups in target sectors, Kosovo wide

Definition of the indicator: Number of new start ups, disaggregated by micro enterprise and sector.

Data Source: Data is received from the Agency for Business Registry (ABRK) of the Ministry for Trade and Industry (MTI).

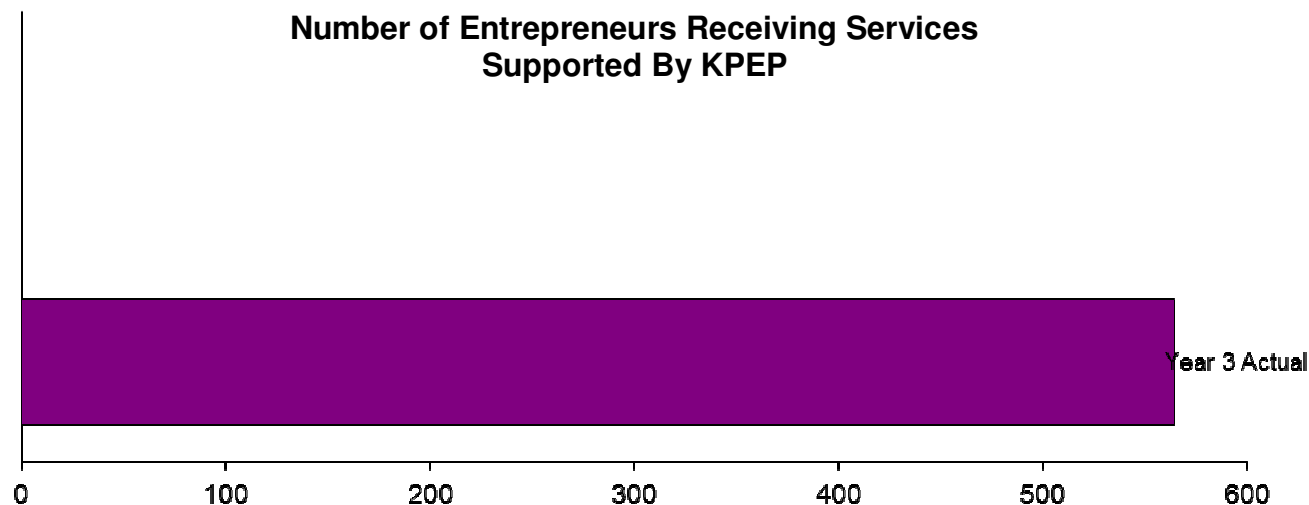


Annual Results. This indicator is reported annually.

IR.1.3.1 (6) Increased Competitiveness of Key Sectors**Indicator: Number of entrepreneurs receiving services supported by USAID**

Definition of the indicator: Number of entrepreneurs receiving services directly by KPEP or indirectly through associations supported by USAID

Data Source: Data received from sector specialists.

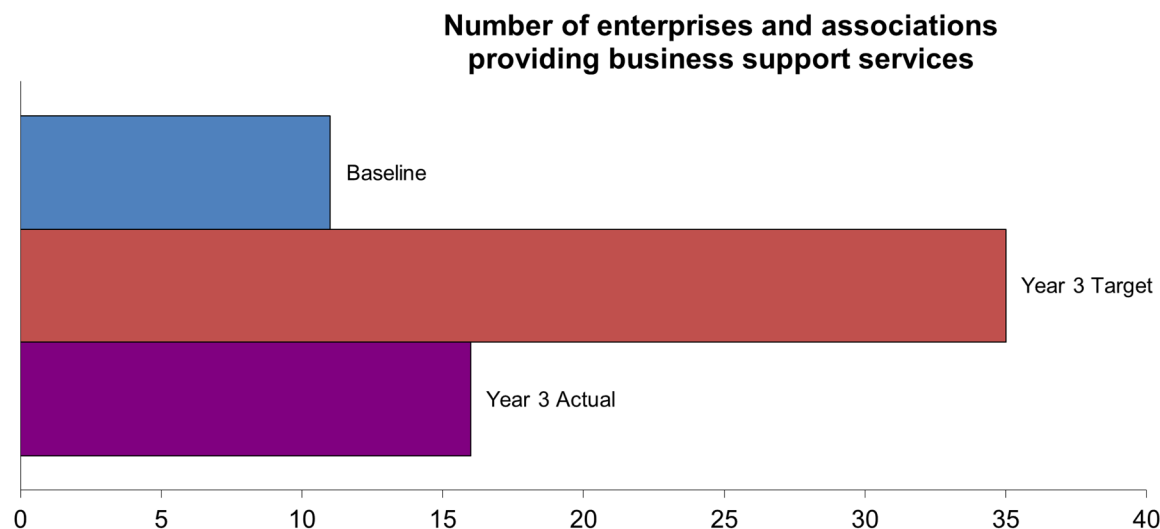


Annual Results. Any service provided, other than training (which is reported under Indicator 1 on workforce development component) is included and reported under this indicator. The list of services provided, among others, includes: study tours, HACCP assessment survey, trade and business linkages, etc. To this list are added also enterprises which are not direct KPEP clients but that received KPEP support through grants and sub-contracts. To date, the total number of 564 entrepreneurs received services supported by KPEP. No changes were reported during this quarter.

IR.1.3.2 (1) Improved and Demand Driven Business Support Services**Indicator: Number of enterprises and associations providing business support services**

Definition of the indicator: Number of enterprises and associations providing business support services that are assisted by KPEP.

Data Source: Data received from sector specialists and BSS team.



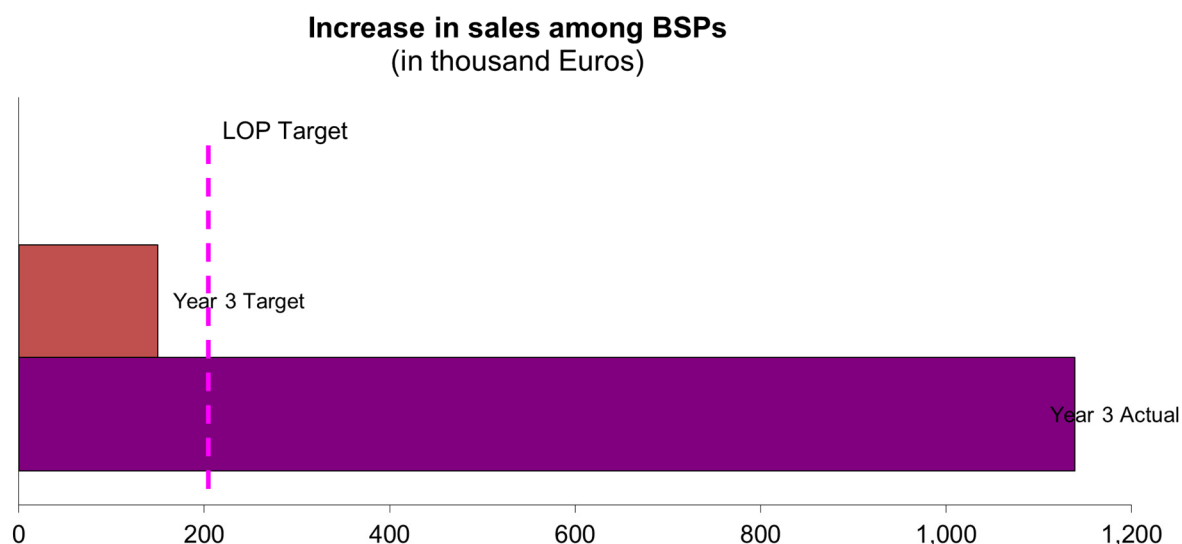
Annual Results. The total number of 15 BSPs are on the list of KPEP assisted BSPs. No new companies were added during the last quarter, due to the fact that the activities in component two were diverted from work with business consultants and other service providers, to associations. However, during this quarter, one new company was added to the client database of the business services sector.

IR.1.3.2 (2) Improved and Demand Driven Business Support Services

Indicator: Increase of sales among BSPs

Definition of the indicator: Value of sales among targeted BSPs, supported by KPEP and disaggregated by export sales.

Data Source: Data received from sector specialists and BSS team.



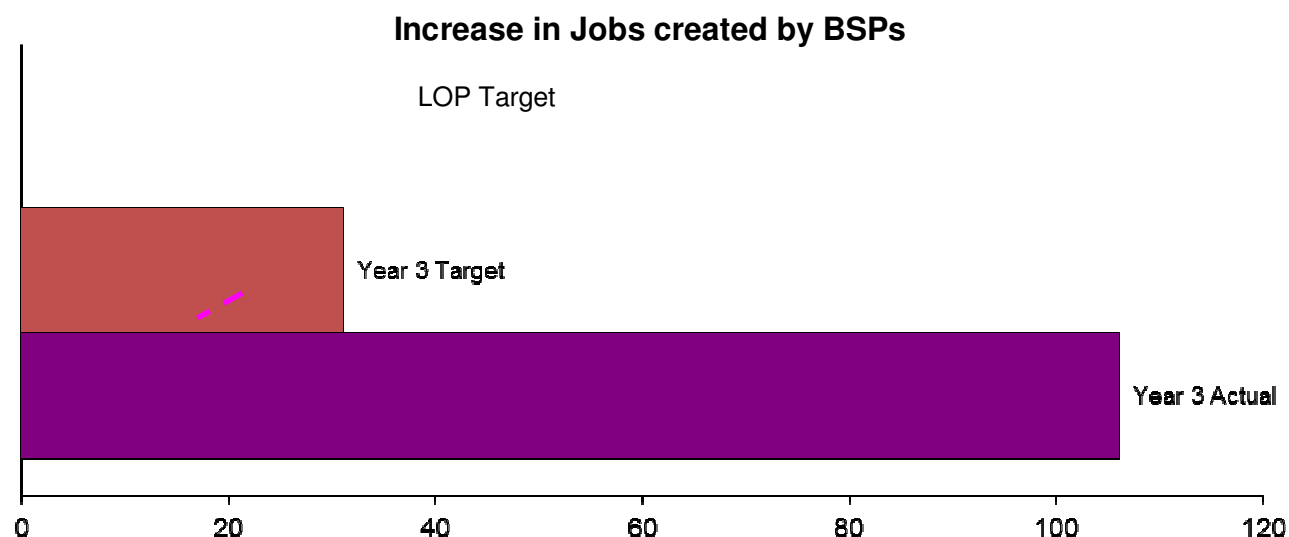
Annual Results. The target cumulative increase in sales for Year 3 is €150,000 over the baseline. The cumulative increase in sales to date is €1,139,078, which by far exceeds LOP target increase in sales of €200,000. During the last quarter, there was an increase in sales comparing to the baseline data of €217,238.

IR.1.3.2 (3) Improved and Demand Driven Business Support Services

Indicator: Increase in jobs created among USAID supported BSPs

Definition of the indicator: Number of jobs created, among target business service providers, in terms of full-time equivalent jobs. Person days of employment (part-time employment) are converted to annual full-time equivalent - FTE jobs using 225 days of labor per year.

Data Source: Data received from sector specialists and BSS team.



Annual Results. The target cumulative increase in FTE jobs over baseline for the Q2 of the Year 3 is 21. The cumulative increase in FTE jobs to date is 106, which already exceeds LOP target increase of 36 FTE jobs.

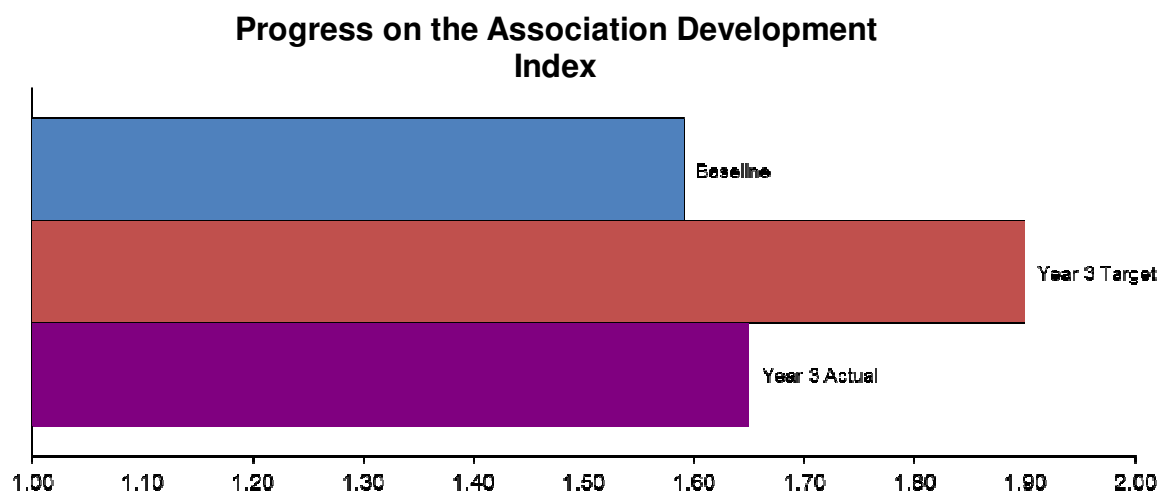
IR.1.3.2 (4) Improved and Demand Driven Business Support Services

Indicator: Progress on the Association Development Index

Definition of the indicator: Progress made by associations on eight elements of the Association Development Index for associations targeted by KPEP. The “Association Development Index as Applied to Selected Associations in Kosovo” assessment was conducted for associations of various businesses in the Republic of Kosovo. Sixteen business associations were chosen for

this purpose. The data was collected using an evaluation tool/questionnaire, i.e. the Association Development Index, provided by USAID KPEP. The Index identified eight elements key to effective association management and was supplemented with questions to enhance understanding of each element. Evaluations of the individual associations were used to create the overall recommended baseline. That baseline was developed using statistical averages of mean, median and mode. The recommended baseline is 1.59, which is the median score. The idea is to conduct this type of assessment each year to monitor the progress of associations.

Data Source: Annual survey was conducted during September 2009.



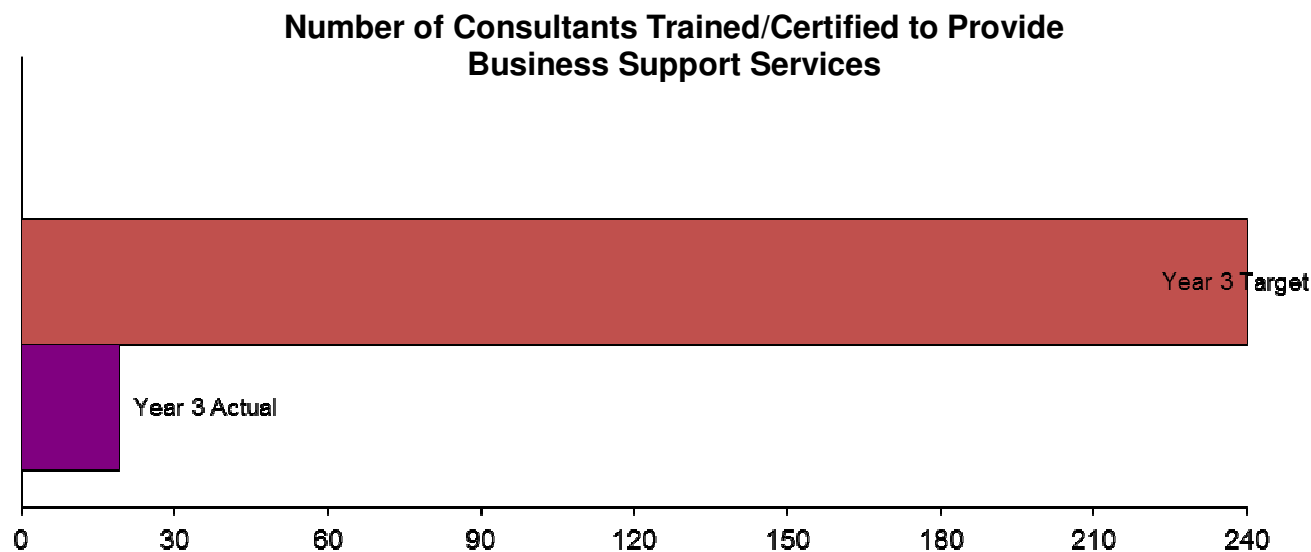
Annual Results. No changes to report during this quarter. The graph shows the current score of the progress on ADI which is at 1.65 median score as of September 30, 2009. This indicator is reported only on annual basis. The next annual survey will be during the third of FY 2011.

IR.1.3.2 (5) Improved and Demand Driven Business Support Services

Indicator: Number of consultants trained/certified to provide business support services

Definition of the indicator: Number of consultants trained/ certified to provide business support services, trained by KPEP or a target BSP, supported by USAID.

Data Source: Data received from sector specialists and BSS team.



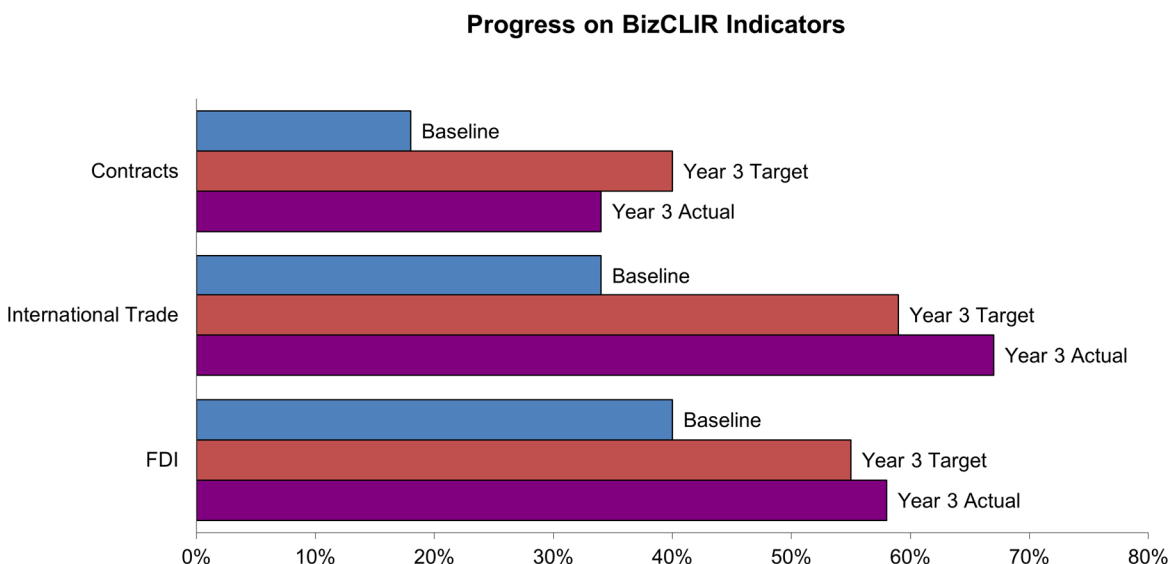
Annual Results. The cumulative target for the number of consultants trained or certified to provide business support services for Year 3 is 240. No changes were reported during this quarter, since USAID asked from KPEP to deemphasize the work with consulting firms. The actual result presented in the chart is the same as in the previous report. During the first year, 19 consultants were certified in the “Kosovo Premier Advisor” training course.

IR.1.3.3 (1) Improved Business Operating Conditions

Indicator: Progress on the Business Environment Index (BizClir)

Definition of the Indicator: The mechanism for monitoring the BEE is the set of Commercial Legal Institutional Reform Assessment Indicator scores compiled for USAID in 2004 and updated in 2006. A 2009 update conducted by KPEP established a baseline, and subsequent updates will chart progress of indicators and subcategories relevant to KPEP activities each year.

Data Source: Annual survey has been conducted on January 2010 to update BizClir Index for 2009.



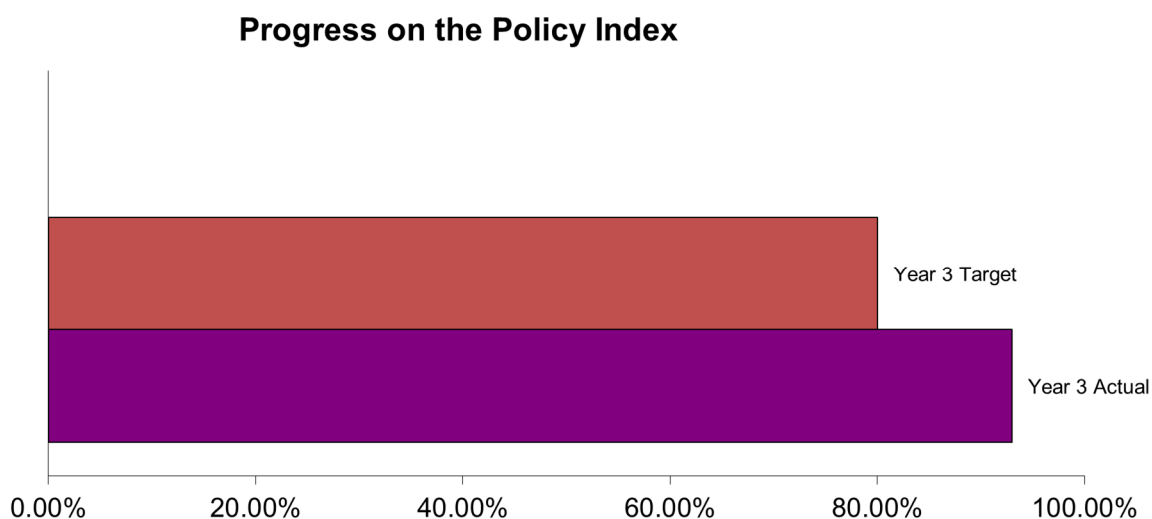
Annual Results. KPEP will discuss with USAID the possibility to reassign this indicator to the new BEE project.

IR.1.3.3 (2) Improved Business Operating Conditions

Indicator: Progress on the policy index

Definition of the Indicator. The number of policies that have met or exceeded established targets on the policy index using percentage of completion.

Data Source: Data received from BEE team.



Annual Results. The graph shows the results from previous quarter. No progress is recorded during this quarter

IR.1.3.4 (1) Improved Capacity of the Workforce to Engage in Employment

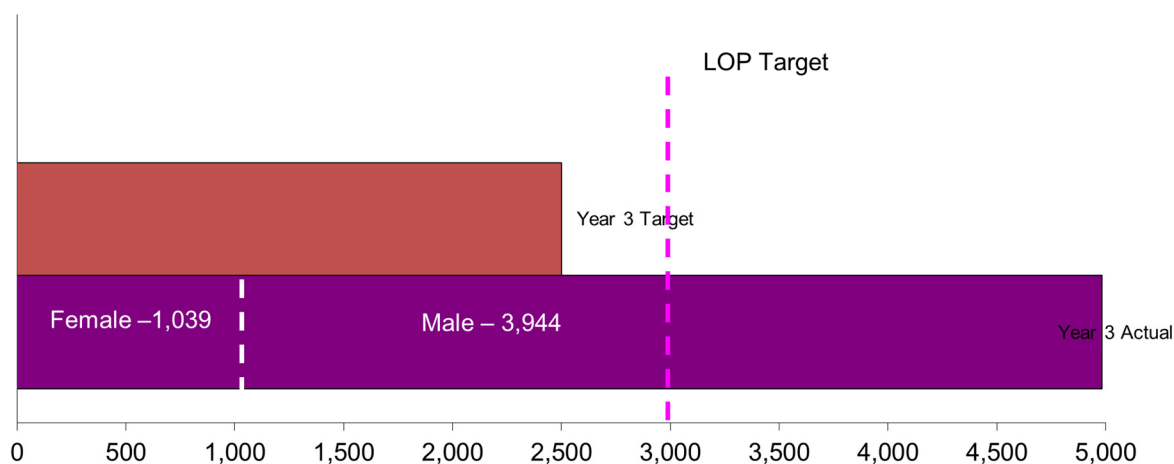
Opportunities

Indicator: The number of individuals trained through USAID sponsored training

Definition of the indicator: The number of individuals trained, disaggregated by gender, age, ethnicity, sector, type of training etc.

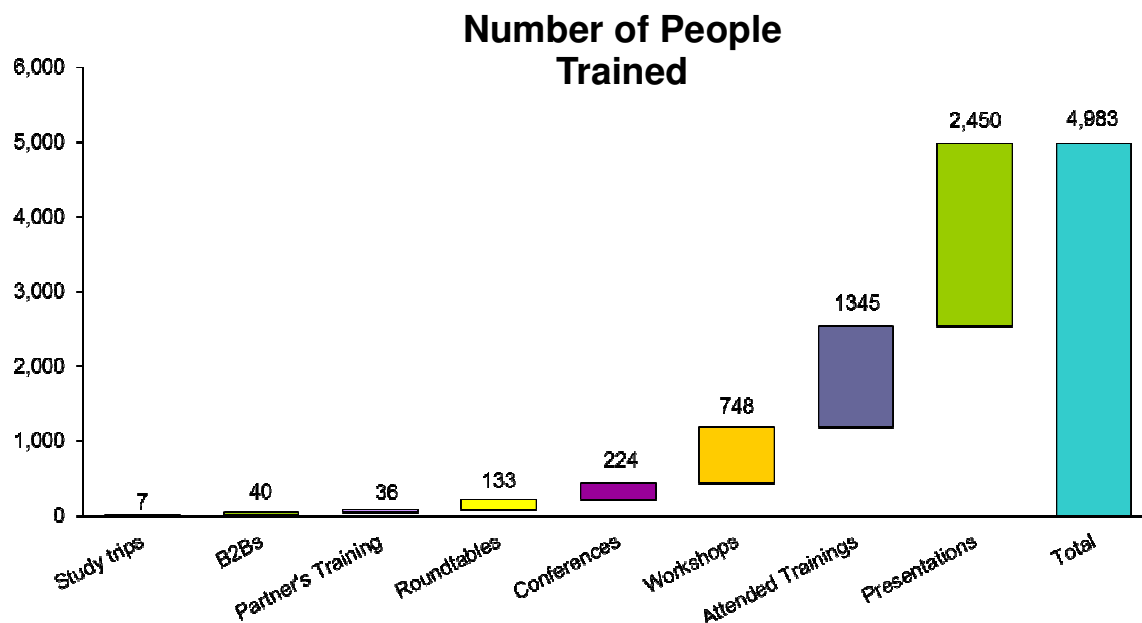
Data Source: Data received from sector specialists and WFD team.

Number of People Trained



Annual Results. To date, the number of people trained is 4,983, thus exceeding the LOP target of 3,000 people trained. During the last quarter, this number was 209. From the total number of people trained during the LOP, 3,944 were male and 1,039 female, 264 were the people from minority areas, and 1,042 were below 25 years old.

Below is the chart that presents number of training events, and number of people trained by training category for the LOP.

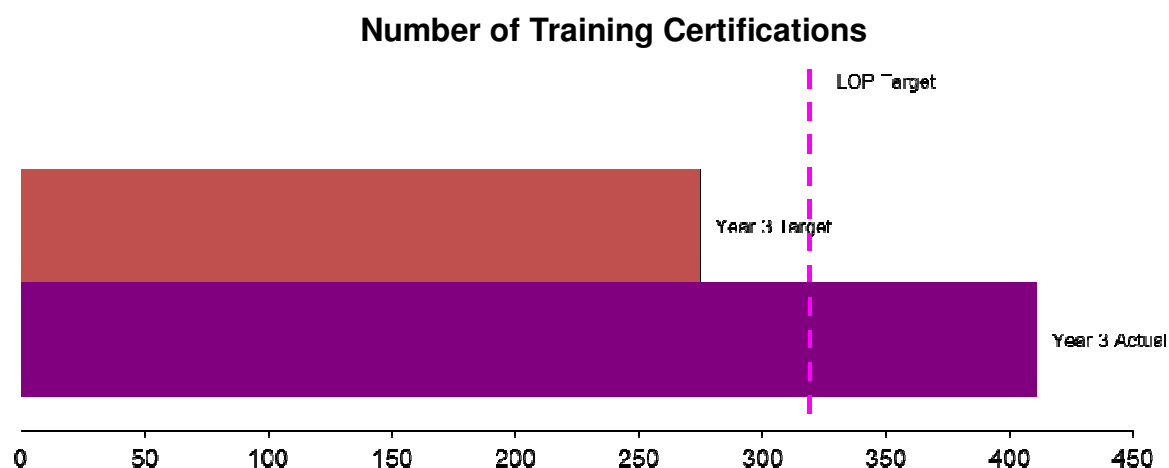


IR.1.3.4 (2) Improved Capacity of the Workforce to Engage in Employment Opportunities

Indicator: Number of training certifications

Definition of the indicator: Number of training certifications earned by participants for completing the training.

Data Source: Data received from sector specialists and WFD team.



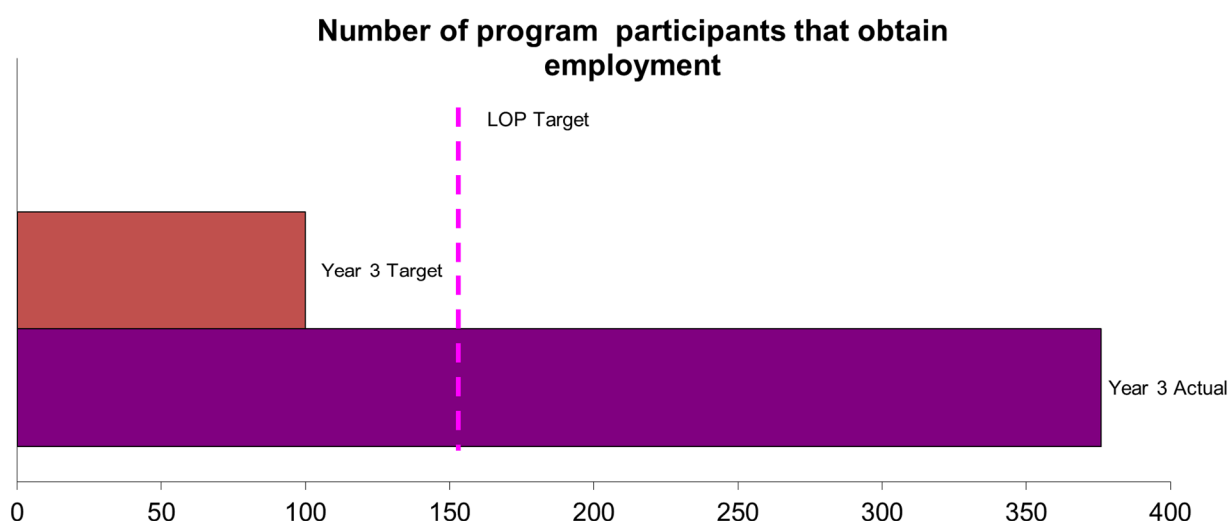
Annual Results. To date, the number of training certifications earned by participants for completing the training is 411. During this quarter, there was no certifications.

IR.1.3.4 (3) Improved Capacity of the Workforce to Engage in Employment Opportunities

Indicator: Number of program participants that obtain employment

Definition of the indicator: Number of program participants that obtain employment, disaggregated by gender, ethnicity.

Data Source: Data received from sector specialists and WFD team.



Annual Results. To date, in total 376 people obtained employment with support of KPEP program. During this quarter, 40 people obtained employment: 22 jobs were generated from the Accounting and Finance analysis training (32 jobs), and eight new people were employed in company Swiss Medica.

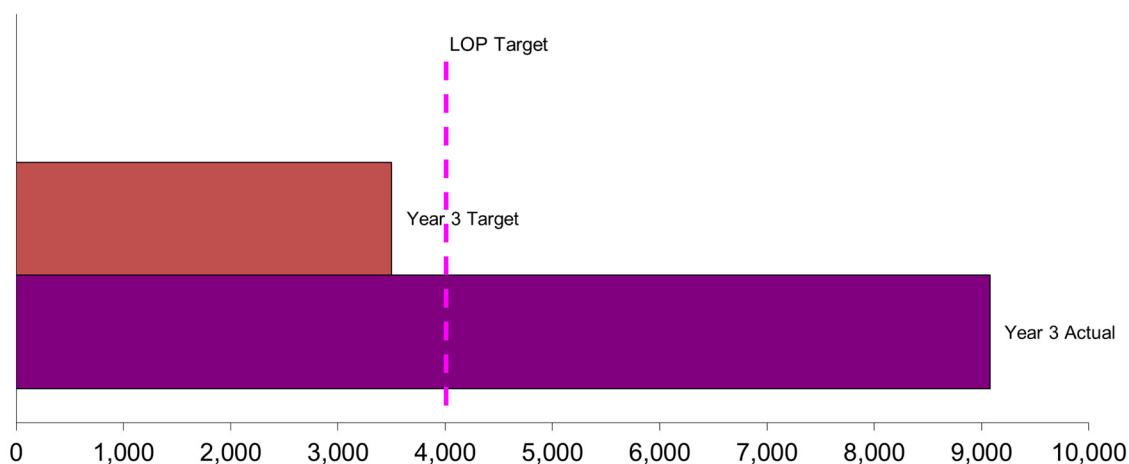
IR.1.3.4 (4) Improved Capacity of the Workforce to Engage in Employment Opportunities

Indicator: Number of individuals provided with services

Definition of the Indicator: Number of individuals provided with services, disaggregated by type of service: counseling, referrals, placement, gender and ethnicity. It excludes number of people trained since it is reported under Indicator of IR.1.3.4 (1).

Data Source: Data received from sector specialists and WFD team.

Number of Individuals Provided with Services



Annual Results. To date, the number of individuals provided with services is 9,078. This number includes (mainly) people that participated in trade fairs supported by USAID. No changes were reported during this quarter.

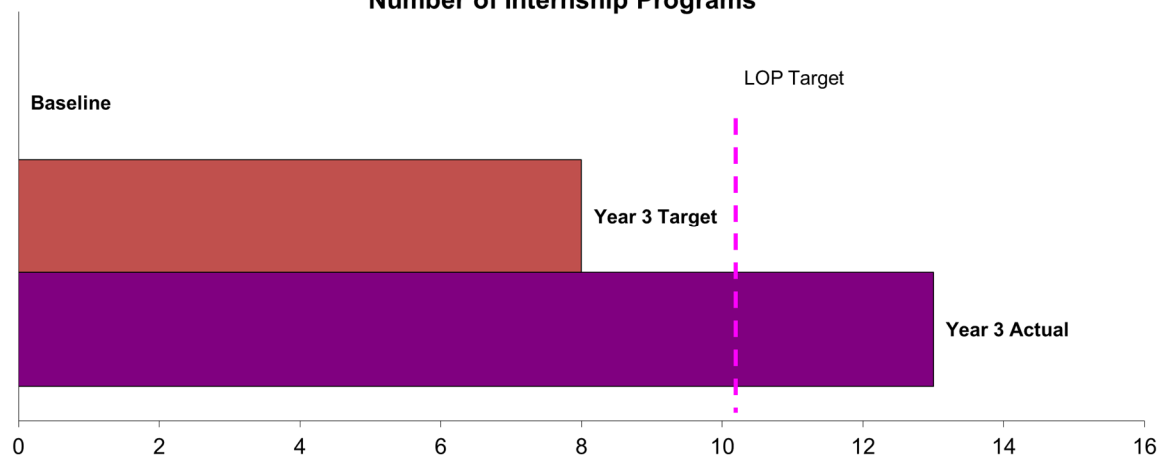
IR.1.3.4 (5) Improved Capacity of the Workforce to Engage in Employment Opportunities

Indicator: Number of Internship programs

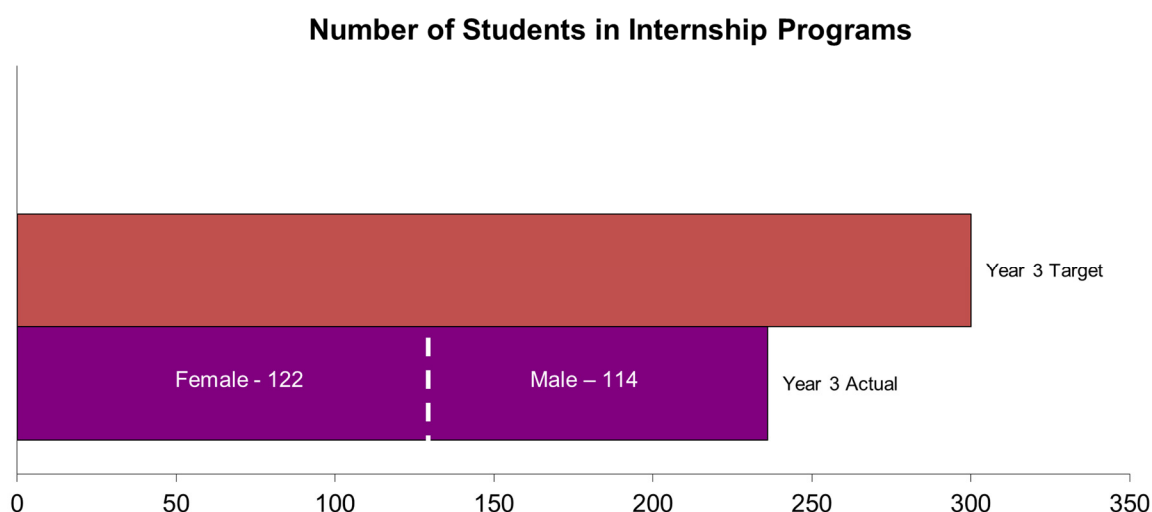
Definition of the Indicator: Internships include any sort of embedded training or on the job training.

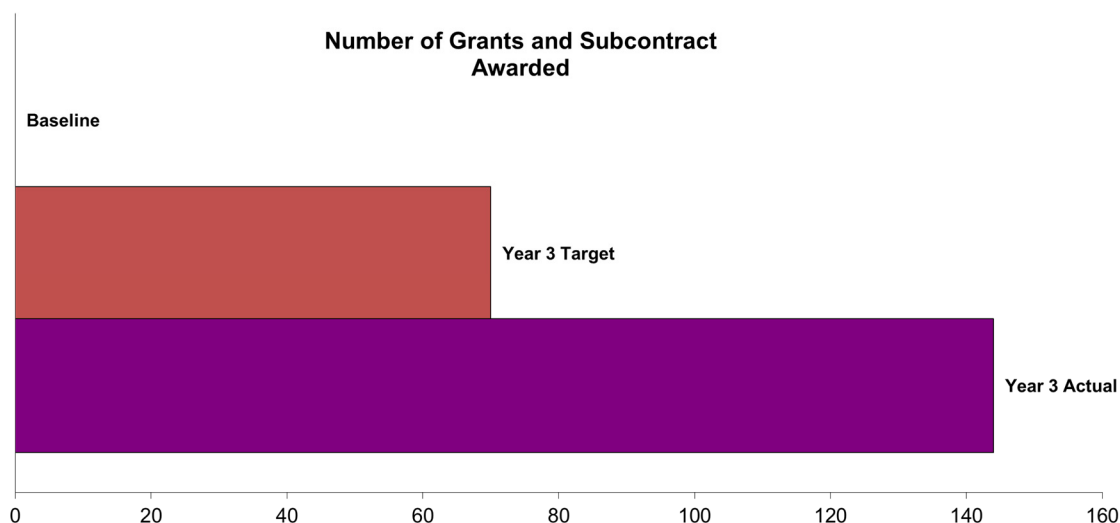
Data Source: Data received from sector specialists and WFD team.

Number of Internship Programs

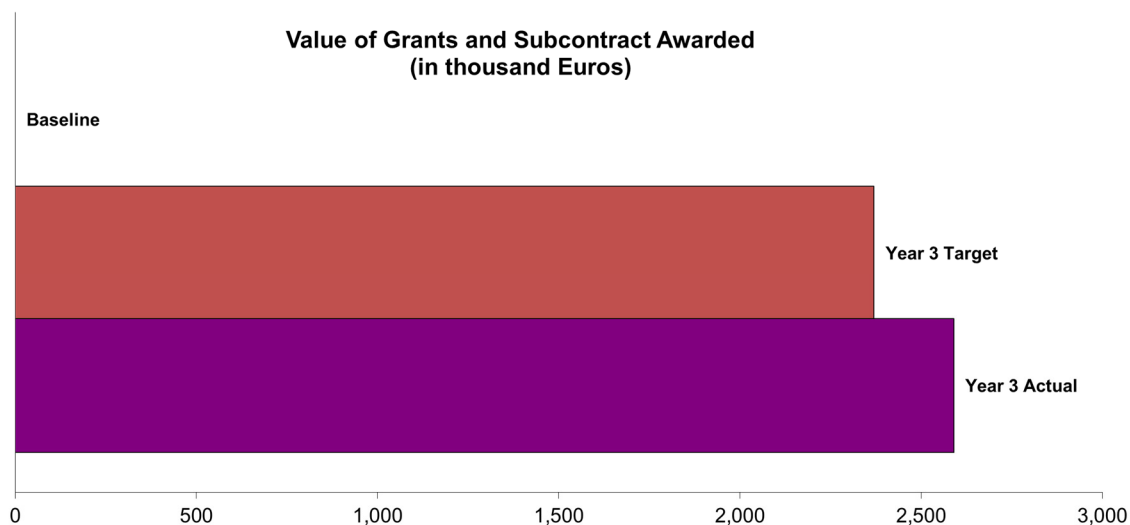


Annual Results. To date, KPEP organized thirteen different activities related to internships. Some of the internship programs were: Dairy Internship, Kosovo Business Case Challenge, Job Fair and Marketing VET in Peja, Business and Economics Interns Presentation skills, Academic writing and career development training, Accounting and Financial Analysis, Wood Industry Internship, Kosovo Business Case Challenge 2010, Amcham Job Fair, and Tourism Job Fair. There were in total 236 interns (122 female and 114 male). No changes were reported during this quarter.



Strategic Activities Fund**Indicator: Number of grants/sub-contracts***Definition of the Indicator:* Number of grants and sub-contracts awarded.*Data Source:* Data received from SAF specialist.

Annual Results. To date, there were 144 grants and sub-contracts awarded; from which 52 were contracts and 92 grants.

Indicator: Value of grants and sub-contracts*Definition of the Indicator:* Value of grants and sub-contracts awarded.*Data Source:* Data received from SAF specialist.

Annual Results. To date, the value of grants and sub-contracts awarded was €2,590,015, from which €695,855 were sub-contracts and €1,894,160 for grants.

Annex 2. PMP Report - Annual Goals and Results

SO# IR#	SO Name	Unit measure	Base- line Year	Base-line Value	2009 Target	2009 Actual	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
1.3	Accelerated Growth of Private Sector											
Indicators												
1 (AR)	Exports as % of imports, by sector	Percent	2008	10.2%	11.0%	0.0%	11.5%	12.8%	12.0%	14.2%	13.0%	0.0%
2	Foreign direct investment, by sector	Thousand Euros	2008	357,400	430,000	291,500	451,000	354,300	475,000	354,300	500,000	0
3	Value of sales, by sector	Thousand Euros	2008	4,418,000	4,900,000	4,552,795	5,400,000	3,294,933	6,000,000	1,554,820	6,700,000	0
4	Number of people employed, by sector	Number	2008	481,000	488,000	496,708	512,000	517,594	523,000	517,955	534,000	0
1.3.1	Increased Competitiveness of Key Sectors											
Indicators												
1	Increase in sales in target sectors over the baseline	Euros	2008	132,316,729	8,000,000	13,177,698	20,000,000	41,003,603	40,000,000	50,215,186	50,000,000	0
	% increase in sales over current baseline	Percent	2008	0	9.4%	25.7%	16.4%	33.6%	32.8%	38.0%	41.0%	0.0%
2	Increase in investments in target sectors	Euros	2008	0	3,200,000	9,570,686	8,000,000	15,256,256	16,000,000	18,827,377	20,000,000	0
3 (AR)	Increase in jobs created in target sectors	Number	2008	1,801	800	293	2,000	1,590	4,000	2,247	5,000	0

SO# IR#	SO Name	Unit measure	Base- line Year	Base-line Value	2009 Target	2009 Actual	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
4	Number of enterprises assisted in target sectors	Number	2008	36	61	47	85	66	110	75	140	0
5	Number of new start-ups in target sectors	Number	2008	0	7	448	12	663	16	663	20	0
6	Number of entrepreneurs receiving services supported by USAID	Number	2008	0	0	496	500	539	TBD	564	TBD	0
1.3.2	Improved and Demand Driven Business Support Services											
Indicators												
1	Number of enterprises and associations providing business support services	Number	2008	11	20	15	30	15	35	16	40	0
2	Increase of sales among BSPs	Euros	2008	1,573,702	40,000	236,566	110,000	752,302	150,000	1,139,078	200,000	0
3	Increase in jobs created among USAID supported BSPs	Number	2008	95	8	23	18	74	31	106	36	0
4	Progress on the Association Development Index	Median score	2008	1.59	1.60	1.65	1.70	1.65	1.90	1.65	2.00	0.00
5	Number of consultants trained/certified to provide business support service	Number	2008	0	70	19	150	19	240	19	300	0
1.3.3	Improved Business Operating Conditions											
Indicators												
1	Progress on the Business Environment Index (BizCLIR)											

SO# IR#	SO Name	Unit measure	Base- line Year	Base-line Value	2009 Target	2009 Actual	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
1.1	Contracts	Percent	2008	18%	25%	0%	32%	34%	40%	34%	50%	0%
1.1.1	Supporting Institutions (B.3)	Percent	2008	10%	15%	0%	19%	21%	24%	21%	30%	0%
1.1.2	Social Dynamics (B.4)	Percent	2008	26%	35%	0%	44%	41%	55%	41%	69%	0%
1.2	International Trade	Percent	2008	34%	41%	0%	49%	67%	59%	67%	70%	0%
1.2.1	Legal Framework (H.1)	Percent	2008	41%	45%	0%	53%	82%	63%	82%	74%	0%
1.2.2	Implementing Institutions (H.2)	Percent	2008	27%	40%	0%	47%	45%	56%	45%	65%	0%
1.2.3	Supporting Institutions (H.3)	Percent	2008	35%	40%	0%	47%	73%	56%	73%	65%	0%
1.2.4	Social Dynamics (H.4)	Percent	2008	34%	40%	0%	50%	61%	62%	61%	76%	0%
1.3	Foreign direct investment, by sector	Percent	2008	40%	48%	0%	52%	58%	55%	58%	60%	0%
1.3.1	Legal Framework (K.1)	Percent	2008	43%	45%	0%	49%	74%	52%	74%	57%	0%
1.3.2	Implementing Institutions (K.2)	Percent	2008	36%	45%	0%	49%	53%	52%	53%	57%	0%
1.3.3	Supporting Institutions (K.3)	Percent	2008	54%	60%	0%	65%	76%	70%	76%	76%	0%
1.3.4	Social Dynamics (K.4)	Percent	2008	28%	40%	0%	43%	43%	47%	43%	50%	0%
2	Progress on the policy index	Percent	2008	0	70%	72%	75%	92%	80%	93%	85%	0
1.3.4	Improved Capacity of the Workforce to Engage in Employment Opportunities											
Indicators												

SO# IR#	SO Name	Unit measure	Base- line Year	Base-line Value	2009 Target	2009 Actual	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
1	The number of individuals trained through USAID sponsored training	Number	2008	0	700	1,620	1,400	4,183	2,500	4,983	3,000	0
2	Number of training certifications	Number	2008	0	80	20	160	252	275	411	325	0
3	Number of program participants that obtain employment	Number	2008	0	TBD	2	20	135	100	376	150	0
4	Number of individuals provided with services	Number	2008	0	800	7,326	1,600	9,078	3,500	9,078	4,000	0
5	Number of internship programs	Number	2008	0	3	3	6	13	8	13	10	0
Strategic Activities Fund												
Indicators												
1	Number of grants/sub-contracts	Number	2008	0	20	26	45	66	70	144	90	0
2	Value of grants and sub-contracts	Euros	2008	0	400,000	447,837	1,750,000	1,335,357	2,370,000	2,590,015	2,625,000	0

Annex 3. PMP Report – Quarterly Results

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2011 Target	Q1 2011 Actual	Q2 2011 Actual	Q3 2011 Actual	Q4 2011 Actual	2011 To Date
1.3	Accelerated Growth of Private Sector									
Indicators										
1 (AR)	Exports as % of imports, by sector	Percent	2008	10.2%	12.0%	14.2%	14.2%			
2	Foreign direct investment, by sector	Thousand Euros	2008	357,400	475,000	0	0			
3	Value of sales, by sector	Thousand Euros	2008	4,418,000	6,000,000	808,320	746,500			
4	Number of people employed, by sector	Number	2008	481,000	523,000	0	361			
1.3.1	Increased Competitiveness of Key Sectors									
Indicators										
1	Increase in sales in target sectors	Euros	2008	132,316,729	40,000,000	8,899,602	311,981			
2	Increase in investments in target sectors	Euros	2008	0	16,000,000	2,085,389	1,485,732			
3 (AR)	Increase in jobs created in target sectors	Number	2008	1,801	4,000	198	459			
4	Number of enterprises assisted in target sectors	Number	2008	36	110	6	3			
5	Number of new start-ups in target sectors	Number	2008	0	16	0	0			
6	Number of entrepreneurs receiving services supported by USAID	Number	2008	0	TBD	25	0			

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2011 Target	Q1 2011 Actual	Q2 2011 Actual	Q3 2011 Actual	Q4 2011 Actual	2011 To Date
1.3.2	Improved and Demand Driven Business Support Services									
Indicators										
1	Number of enterprises and associations providing business support services	Number	2008	11	35	0	1			
2	Increase of sales among BSPs	Euros	2008	1,573,702	150,000	169,538	217,238			
3	Increase in jobs created among USAID supported BSPs	Number	2008	95	31	3	29			
4	Progress on the Association Development Index	Median score	2008	1.59	1.90	0.00	0			
5	Number of consultants trained/certified to provide business support service	Number	2008	0	240	0	0			
1.3.3	Improved Business Operating Conditions									
Indicators										
1	Progress on the Business Environment Index (BizCLIR)									
1.1	Contracts	Percent	2007	18%	40%	0%	0%			
1.1.1	Supporting Institutions (B.3)	Percent	2007	10%	24%	0%	0%			
1.1.2	Social Dynamics (B.4)	Percent	2007	26%	55%	0%	0%			
1.2	International Trade	Percent	2007	34%	59%	0%	0%			
1.2.1	Legal Framework (H.1)	Percent	2007	41%	63%	0%	0%			

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2011 Target	Q1 2011 Actual	Q2 2011 Actual	Q3 2011 Actual	Q4 2011 Actual	2011 To Date
1.2.2	Implementing institutions (H.2)	Percent	2007	27%	56%	0%	0%			
1.2.3	Supporting Institutions (H.3)	Percent	2007	35%	56%	0%	0%			
1.2.4	Social Dynamics (H.4)	Percent	2007	34%	62%	0%	0%			
1.3	Foreign direct investment, by sector	Percent	2007	40%	55%	0%	0%			
1.3.1	Legal Framework (K.1)	Percent	2007	43%	52%	0%	0%			
1.3.2	Implementing institutions (K.2)	Percent	2007	36%	52%	0%	0%			
1.3.3	Supporting Institutions (K.3)	Percent	2007	54%	70%	0%	0%			
1.3.4	Social Dynamics (K.4)	Percent	2007	28%	47%	0%	0%			
2	Progress on the policy index	Percent	2008	0	80%	93%	93%			
1.3.4	Improved Capacity of the Workforce to Engage in Employment Opportunities									
Indicators										
1	The number of individuals trained through USAID sponsored training	Number	2008	0	2,500	591	209			
/t2	Number of training certifications	Number	2008	0	275	159	0			
3	Number of program participants that obtain employment	Number	2008	0	100	201	40			
4	Number of individuals provided with services	Number	2008	0	3,500	0	0			

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2011 Target	Q1 2011 Actual	Q2 2011 Actual	Q3 2011 Actual	Q4 2011 Actual	2011 To Date
5	Number of internship programs	Number	2008	0	8	0	0			
Strategic Activities Fund										
Indicators										
1	Number of grants/sub-contracts	Number	2008	0	70	56	22			
2	Value of grants and sub-contracts	Euros	2008	0	2,370,000	713,301	541,357			